Balrampur Chini Mills Limited

Analysts / Investors Conference Call

December 02, 2008

Anoop Poojari: Good afternoon everyone and thank you for joining us on Balrampur Chini Mills Q4 and FY 2008 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 discussion. I would now like to invite Mr. Saraogi to make his opening remarks.

Vivek Saraogi: Thank you everyone and welcome to this conference call which will take us through our results for the year ended September 2008.

Let me begin by taking you through the key events for the period under review, after which Kishor will take you through the financial performance.

The Company has delivered encouraging numbers for the financial year FY2008 which showed growth across all segments, especially the allied businesses. With regard to sugar segment, it has demonstrated promising growth during the quarter owing to better realizations. Realizations were higher at Rs. Rs.17.0 kg in Q4 FY08 compared to Rs.13.4 kg in the corresponding quarter last year. Current realizations witnessed by the Company are in the range of about Rs.17.5 kg.

Looking ahead at FY2009, we expect sugarcane availability to reduce on account of lower cane cultivation, as a result of which we expect overall sugar production in the country to be around, honestly to be below 20 million tonnes. Production in UP is likely to reduce by 15% to 20% while Maharashtra is expected to have a much sharper fall of around 30%. Our facilities also would witness reduced cane availability which will impact our production around 15%. The consumption for sugar is likely to remain around the same level which is stable at around 23 million tonnes. Thus, the demand-supply mismatch should absorb sugar inventories bringing firmness into prices going ahead.

Also, I would like to add that last year from India, we could export a record quantity of 5 million tons which has also reduced inventory and this was demonstrated in the fourth quarter pricing.

UP government has recently announced a SAP, state advised price for Rs.140 quintal for this season. The sugar industry has filed a writ petition against this in the Allahabad High Court. The arguments from both sides have been completed and the judgment is expected. We were hopeful that the judicial system will come to a conclusion and that will be fair and beneficial to all the stakeholders.

I come to the distillery segment which witnessed a robust growth of 37% year on year on account of increase in volume due to new facilities at Balrampur which is an expansion and Mankapur. The segment witnessed better realizations across primarily driven by products like RS and ENA. With better volume and realizations, we expect a decent performance from this segment going into this year.

Our cogeneration business reported a steady growth of around 27% during the year on account of expanded capacities at Kumbhi and Gularia. Our saleable power capacity in FY08 was 126MW. This segment was the largest contributor to our PBIT levels during the year at Rs.108 crore demonstrating the importance of having invested in integrated operations from years back. In the coming year, we anticipate a lower volume in this division owing to lower bagasse availability consequent to as I mentioned earlier a 15% lower expected crushing.

Historically, the Company has maintained a strong balance sheet. The current debt equity ratio stands at 0.91 which is one of the best in the industry. We haven't undertaken any further expansion plans which would cause any additional debt on the balance sheet.

To sum up, our strong integrated model which was pioneered by us has enabled us to rise various sugar cycles smoothly, and we believe it will continue to contribute towards our steady performance in future. However, the outlook of the business would depend on the outcome of the cane price issue which is to be decided by the judiciary. I would now give the floor over to Kishor to take you through the financial performance.

Kishor Shah: Thank you. Good afternoon everyone and thank you once again for joining us on today's call. I would like to briefly discuss with you BCMLs financials and operating performance for the fourth quarter and financial year ended September 30, 2008.

Revenues from sugar segment in FY08 were at Rs. Rs.1,231 crore versus Rs. Rs.1,208 crore in FY2007. During the quarter, revenues increased by 51% to Rs.374 crore from Rs.247 crore in the corresponding quarter owing to better realizations and volumes. In FY2008, sugar realizations were at Rs.14.96 per kg compared to Rs.14.56 per kg in FY2007 and realizations were at Rs.16.97 per kg for the last quarter. PBIT for the sugar was Rs.65 crore in the sugar division as compared to a loss of Rs.104 crore in the FY2007.

Coming to our distillery business, we registered a 37% revenue growth at Rs.168 crore against Rs.123 crore in FY2007. During the quarter, revenues improved 56% to Rs.41 crore from Rs. 27 crore. We were able to achieve strong top line growth due to higher realizations witnessed during the quarter combined with the overall improved sales. In FY 2008, sales improved by 37% to 86,145 KL from 62,912 KL in FY2007. In Q4 FY08, average realizations were at Rs.23,178 KL compared to Rs.17,610 KL in the corresponding period. During the year, ethanol sales were at 16,543 KL, up 68% from 9,823 KL in FY2007. Operating profits for the year were at Rs.65 crore, a growth of 28% over last year.

With regards to our cogeneration business, revenues were higher by 27% to Rs. 238 crore in FY08 as compared to Rs.188 crore in FY2007. Revenues came in higher by 27% due to increased capacities at Kumbhi and Gularia units. Power production for the year came in 79.07 crore units in FY08 as compared to 67.68 crore units in the previous year. Profit after tax for the Company was at Rs.97 crore during the year as compared to a loss of Rs.41 crore last year. In the fourth quarter, profit after tax came in at Rs.14 crore as against a loss of Rs.34 crore in the previous year. The Company registered a strong growth in profitability given increased volumes at better realization. Cash profits for FY2008 stood at Rs.214 crore, a growth of 458% as against Rs.38 crore last year pointing to the overall excellent growth shown by the Company in difficult environment.

As mentioned by Mr. Saraogi, the outlook for the sugar prices is positive. However, going ahead, the cane prices which are to be decided by the judicial system is going to play an important role in determining the outlook for the sugar businesses year ahead. That is all from my side. Thank you for participating in this call. We will now be glad to take any questions that you may have. 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, kindly press *1 now. First question comes from Mr. Neerav Vasa from Gupta Equities. Over to you sir.

Nirav Vasa: Good afternoon Sir, can you please tell me what is the interest rate at which the Company is borrowing for its working capital needs and for its long-term capital commitments?

Kishor Shah: We have total outstanding long-term loans as of today of about Rs.1020 crore for which we have an average interest rate of about 8.5%.We are borrowing our working capital at around 10.5% to 11%.And our requirement for working capital is about Rs.500 crore on an average.

Nirav Vasa: Sir, apart from that, what was the number of crushing days where the plant was active for the recently concluded year?

Vivek Saraogi: Our average working was 132 days for the concluded financial year.

Nirav Vasa: Okay. And sir, would it be possible to give any kind of guidance for the coming year considering that you are expecting a fall in the sugar production this year?

Vivek Saraogi: About 110 because capacity is a little bit debottlenecking, etc., normal, about 110 to 115 days.

Nirav Vasa: And sir, can you throw some light on the average realization per ton of sugar crushed for the recently concluded year?

Kishor Shah: The average realization was 14.96 per kg.

Nirav Vasa: Sir, I agree on that point, my question is cane realization, after crushing 1 ton of cane, what is the realization of juice, that is around 9% or 10%, how much?

Vivek Saraogi: Last year was 10.16%.

Moderator: Thank you very much sir. Next in line, we have Mr. Bhavin from Enam Holdings. Over to you sir.

Bhavin Chedda: Good afternoon sir. For the fiscal September 08, if you can give the numbers for sugarcane crushed, sugar production, and sugar sales volume in terms of lakh quintals?

Kishor Shah: In FY08, we crushed 805.79 lakh quintals and a recovery of 10.16% giving a production of 81.85 lakh quintals versus in FY 2007; it was 923.10 lakh quintals and a recovery of 9.91% giving a production of 91.52 lakh quintal.

Bhavin Chedda: And sugar sales volume sir, entire thing was sold out?

Kishor Shah: No, the sugar we sold in FY 2008 was 74.18 lakh quintal versus 75.36 lakh quintal last year.

Vivek Saraogi: And our closing stock as on 1st October 2008 is 31.6 lakh bags. We are having that in our balance sheet as on 30th September 2008.

Bhavin Chedda: In terms of September quarter, what will be sugar sales volume like?

Vivek Saraogi: 20.69 lakh quintal and an average realization of around Rs.17 per kg.

Bhavin Chedda: Okay. And in cogeneration, what was the power production, any power number for the September quarter. In the press release, you have given the year numbers.

Kishor Shah: It was 7.09 crore unit for fourth quarter ended 2008.

Bhavin Chedda: Okay. And for the year it was?

Kishor Shah: For the year, it was 79.06 crore units.

Bhavin Chedda: Okay. And you said the closing borrowing figure long-term debt is Rs1023 crore, working capital is Rs.500 crore.

Kishor Shah: The working capital is Rs.330 for FY2008.

Vivek Saraogi: What Kishor mentioned that this will be the working capital required during the season.

Vivek Saraogi: Which might be peaking at Rs.500 crore, might not be an average of 500. Average I think Rs.400 crore? About Rs.350crore to Rs.400 crore.

Bhavin Chedda: So, next year sir, you are looking at crushing close to 700 lakh quintals right.

Vivek Saraogi: 650 lakh quintals to 700 lakh quintals.

Bhavin Chedda: And in terms of merchant power sales, you will be able to do 126 MW or that will decline?

Kishor Shah: Number of days will decline. Power will continue on a daily basis, will continue at 126MW. But number of days will decline because of non availability of bagasse.

Bhavin Chedda: Okay, okay. Thanks a lot sir.

Moderator: Thank you very much sir. Next in line, we have Nillai Shah from Morgan Stanley. Over to you sir.

Nillai Shah: Good afternoon. Just one question on my part, the average realizations for the quarter for the distillery quarter at Rs.23.2 per litre, for a large part of the quarter actually the realization has trended upwards of Rs.30 per litre, so how come you are not able to capture this entire increase and the averaged trended only at Rs.23.2 per litre?

Kishor Shah: No, this was net of excise duty. liter

Kishor Shah: This Rs.30 per litre upwards was a brief period only.

Vivek Saraogi: and very brief quantity.

Nillai Shah: But the brief period, I mean I thought it was upwards of a month where it stayed above Rs.30 per litre. It peaked at Rs.36-37 per litre, but it stayed upwards of 30 per litre for more than a month.

Kishor Shah: No, basically we have a long-term agreement like, you know, ethanol is still at Rs.21 50 per litre and ENA maybe we might have sold at Rs.35-36 per litre but, you know, very small quantity.

Vivek Saraogi: See, I will tell you, let me explain this whole segment for you. We have three products; ethanol is locked in at Rs.21.50 per litre plus excise. So, that excise goes into costing, reducing the cost, am I right. So, therefore the realization reflects at only Rs.21.50 per litre; however, actually it is 16% higher. Secondly, we have something called SDS which is the denatured segment which is the industrial segment used by the chemical people. That also you get 16%. That also goes to the costing part. So, this figure of Rs.23 per litre, if you add 16%, it comes to, for these two segments, approximately this will come to about 25 per litre at an average. The third segment is the liquor segment which buys ENA as well as rectified spirit. Now, that realization did go briefly, never Rs.36-37 per litre because even with ENA you have good , you know, these BDAs and these Shaw Wallace, they are long-term buyers and they do not reduce your price also drastically, they don't up your price also drastically. So, we did get Rs.29-30 per litre from this segment and therefore the average is, you know, if you take the excision portion in is around Rs.25 per litre, which all three segments put together, we did capture that Rs.29-30 per litre bracket.

Nillai Shah: Okay. And what percentage is ENA plus RS?

Vivek Saraogi: Yeah, we will just answer that in a minute.

Nillai Shah: And just basically a followup question, what is the current realization right now, net of excise?

Kishor Shah: 17.5 Rs. per kg.

Nillai Shah: I am only talking about ENA plus RS.

Vivek Saraogi:Yeah, yeah, see, again you have to look at three segments. The ethanol remains where it is, there is lessening. Your ENA and all have not reduced prices so much. So, these two segments will help now.

Nillai Shah: So, ENA I believe will be about 28-30?

Vivek Saraogi: No, lower at about Rs.24-25.

Kishor Shah: ENA is Rs.24-25 per litre.

Nillai Shah: And RS will be lower than that also?

Vivek Saraogi: RS would be Rs.21-22 per litre.

Kishor Shah: And de-natural SDS is around Rs19-20 per litre.

Nillai Shah: Okay, perfect. That's it. If you could just give me the breakup at anytime during the call, it would be very helpful.

Vivek Saraogi: Okay. He is just going to see it and he will give it you if on the call. Otherwise, maybe half an hour later.

Moderator: Thank you very much sir. Next question comes from Sanjaya Satapathy from DSP Merrill Lynch. Over to you sir.

Sanjaya Satapathy: Sir, my question is relating to the status of the court case in Uttar Pradesh and what is the status of current crushing season and what is the progress there?

Vivek Saraogi: Okay. I think I will deliberate on this a little because a lot of interest and lot of sort of concern on this. All units almost in UP have begun crushing including ours. What we are writing today on the Parchi, Parchi is the slip which is provided to the farmer when he supplies the cane, is Rs.140 per quintal as announced by the state government subject to orders of the court. No payment has begun to the farmer because the law is you have to pay within 14 days of crushing. Crushing having begun recently, 14 days is still, you know, a week away. Secondly, the court has concluded its hearing in Allahabad and has officially mentioned that the judgment would be delivered within this week. So, beginning from today to Friday, the judgment would come out any day. It could even come out today, tomorrow, whatever. So, once the judgment is out, the stamping bears the impact of judgment or sort of factors it in. The industry has appealed on two counts. One, Rs.140 per quintal is an arbitrary price as has been the previous year's price, and you are aware that two years Supreme Court has reset the price in its interim orders, 2006-2007 at Rs.118 per quintal, 2007-2008 at Rs.110 per quintal. Our second argument this year has been on the cane transportation reduction. We have asked and said that Allahabad High Court has already given an order of Rs.10.58 and why should it not be followed the diesel prices are where they are. So, transportation cost is an actual cost. So, (a) our argument is for cane price at the gate which is Rs.140 per quintal, we are looking to say that this is arbitrary. Secondly, we are saying that, you know, Rs.140 should correspond to a deduction of Rs.10.58 at the center which is about 65% to 70% of our cane. So, there, a deduction of Rs.10.58 should be allowed. So, these are the two points on which the judgment is sought or the appeal has the case has been fought by us.

Sanjaya Satapathy: Can you just give us some sense of what will be your profitability or profit compared to that of FY2008 if what the Uttar Pradesh Court had said about the cost of cane is implemented?

Vivek Saraogi: At Rs.140 per quintal, assuming a transport deduction of Rs.10.58 which is already the order of Allahabad in its previous case, we personally feel that sugar price should look up from here. See we have various reasons to feel this way. One, you are beginning with an opening stock which is not very high, having exported 5 million tonnes of sugar which is the highest ever. Two, we are looking at a production level of below 20 million against a consumption of 22.5 million tonnes to 23. Three, we are looking at historic data which tells us when Maharashtra has never reduced while its production during one year. If we see, you know, fall of production in sugar industry from the peak, we have always seen it happen two years in succession, especially Maharashtra. I will just take you to 2002-2003 data, Maharashtra at that time produced a peak of 6.2 million tonnes, then in 2003-2004, it came down to about 3.7 million tonnes or something, then the year after that, it came down to 2.2million tonnes. So, Maharashtra, we have reduced two years, therefore we feel that even going into 2009-2010, India production should not increase from these levels. You have two years visibility on production, therefore on pricing, I feel very bullish going ahead from here.

Sanjaya Satapathy: But sir, how much will be your cost of production if there is no transportation cost subsidiary sir?

Vivek Saraogi: Yeah, we should have a cost of Rs18 at the pre-interest. So, I think at the overall level, we should look at a cost of, everything included, about Rs.19.

Sanjaya Satapathy: And that is excluding byproduct realization or including byproduct?

Vivek Saraogi: No, this is just on a transfer pricing of byproduct. So, you know, the other divisions would continue to perform as they have been doing with just 1 kg out of lower volumes in the power division, which means the profit in power division is maintained; however, the volume will come down. The profit per unit is maintained. The volume will come down. So, in sugar segment, we have seen that at the net of interest level, we are still losing money in the FY2008. Personally, I see going into FY2009, sugar being able to give a small contribution on the positive side, plus your opening stock of 31.6 lakh bags in the balance sheet being carried forward at Rs14.05 per kg.

Vivek Saraogi: So, we see a margin coming (a) into the stocks, (b) we see profit being positive in the sugar division, (c) we are seeing both other divisions contributing positively with power contributing a little less, you know, probably at an average, what was our running days in power?

Kishor Shah: Actually, we sold 57 crore units last year of power. maybe next year we will sell 45 crore units.

Vivek Saraogi: Yeah, so, you know, probably whatever we sold, we will sell about 20% lower in power also. So, all three divisions would get into profit contributions, would all get in and the opening stock would also chip in a big way.

Sanjaya Satapathy: Okay. Sir, my last question is that why was there such a big difference in the consolidated entity's performance vis-à-vis the standalone entity performance?

Vivek Saraogi: Okay, we would just like to…we had got this concern from a couple of other people. See, the Rs15 crore odd loss in the consolidated is nothing but the loss on the Indo Gulf. This is a 53% subsidiary of the Company. Now, that is also on the level of interest and depreciation only. Plus there is a goodwill write-off Rs.4 crore. So, cash loss is only about Rs.11 crore. How much is depreciation in Indo Gulf? We will tell you. So, cash loss is, you know, about Rs.7 crore only.

Sanjaya Satapathy: Sir, how much is the borrowing for Indo Gulf?

Kishor Shah: Indo Gulf borrowing, long-term borrowing is about Rs.102 crore.

Sanjaya Satapathy: Okay. Sir, so the overall gross borrowing including working capital would be Rs.1400 crore then?

Vivek Saraogi: Yes, around those levels.

Moderator: Thank you very much sir. Next question comes from Achal from JM Financial. Over to you sir.

Achal Lohade: Actually a couple of questions. First, can you tell us what is your consolidated production in terms of bags lakh quintals?

Vivek Saraogi: Okay, second question.

Achal Lohade: Similarly sales volume and realization and the closing stock number for consolidated Company and at what price it is valued.

Vivek Saraogi: Balrampur Chini's production 81.86 lakh bags, Indo Gulf about 3 lakh bags making it a consolidated of 84.86 lakh bags.

Vivek Saraogi: We will just tell you the data Indo Gulf.

Achal Lohade: Sure sir. And just wanted to know what is the total cane volume crushed in consolidated Company.

Vivek Saraogi: 81 plus 3, 84.86.Around 85 lakh quintals.

Achal Lohade: And this is the total production…total production right?

Vivek Saraogi: Yes, this was the total production for FY08.

Achal Lohade: Right, right. And what was the cane crushed, amount of cane crushed and recovery?

Vivek Saraogi: This is the amount of 85 lakh tons. Approximate figure is 10.16%. You know, it is almost 10 times.

Achal Lohade: Okay. And what is the landed cost of cane for consolidated Company in FY2008?

Vivek Saraogi: Rs.110 per quintal was the cane cost, landed cost Rs.120.95per quintal.

Achal Lohade: Okay. And inventory you said how much?

Vivek Saraogi: We had 31.6 lakh bags for Balrampur plus we are checking for Indo Gulf. Carry forward at 14.05 which right now is being sold at 17.50. But I personally, you know, it can only look up from here.

Achal Lohade: Okay. And just wanted to know in Indo Gulf, the interest and depreciation, you said it is pretty high and so since we hold only 54%, why we have such a low minority interest number, like share in loss?

Pramod Patwari: The entire net worth of this said subsidiary has been fully eroded. So, for the time being, 100% has been absorbed by the holding Company.

Vivek Saraogi: These are as per accounting standards. You have to account for it and even if you see after this, Indo Gulf depreciation is Rs.4 crore, goodwill is about Rs.4 crore, so, you know, Rs.15 crore loss there, actual cash loss is only Rs.7 crore.

Achal Lohade: Okay, okay. And what is the guidance for cane crushing going forward in terms of lakh quintal sir?

Vivek Saraogi: We mentioned around 65 lakh tonnes to 70 lakh tonnes. Take it as 67 lakh tonnes.

Achal Lohade: Okay. And just wanted to know there is a disclosure in terms of the foreign currency loan, ECB loans from domestic banks. So, just wanted to know what are the interest rate, like effective interest rate on this?

Kishor Shah: The effective interest rate is about 8.5% and all our ECBs are fully hedged into rupee. We do not have any open exposure and we do not have any outstanding derivatives.

Moderator: Thank you. Participants are requested to stay connected. The management line got dropped. The call will begin shortly. Thank you. Mr. Vivek, you can go ahead. The speaker is connected. Participants can go ahead with the questions.

Moderator: Sure sir. Participants who wish to ask questions may kindly press *1 on the telephone keypad. Next in line, we have Mr. Nirmal Shah from Alchemy. Over to you sir.

Nirmal Shah: Good afternoon Sir, I just wanted to know how much cane production you foresee in UP for this season.

Vivek Saraogi: See, last year, UP made about 73 lakh tonnes. Personally, around 55 lakh tonnes.

Nirmal Shah: Okay. Sir, is there any possibility of cane crushing days going somewhere near 100 days or you are confident maintaining at 110 days?

Vivek Saraogi: See, one feels with our thing we should do 110, but, you know, one can't give this sort of, you know, written on a bond paper. Because UP is declining and so are other states. So, the area we can estimate, the yield you can't estimate today. You know, the yield is yield per hectare of cane. So, that can only be estimated, you know, very correctly in the month of January.

Nirmal Shah: Okay. So, based on 110 days of crushing, how many days of operation we can foresee for distillery and cogen?

Vivek Saraogi: See, distillery should be able to do its 280 odd days. Power as I said in number of units if we see, it should be 20% lower than last year.

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

Arya Sen: Hello, good afternoon sir. Couple of questions. Firstly, what are your figures for inventory of molasses and bagasse, closing inventory?

Vivek Saraogi: Okay. Bagasse, there should be, you know, not very high level of inventory, but we will still give you the figure of both.

Arya Sen: Okay. The second question is in terms of Indo Gulf Industries, do you have any plans of selling it off or anything like that?

Vivek Saraogi: No, you see right now Indo Gulf, yes, doesn't look very attractive, but going ahead this year I don't think Indo Gulf should give a negative contribution. It should be able to breakeven with my view on sugar prices. Secondly, Indo Gulf gives us valuable molasses and bagasse, let's remember that also. So, if we take the holistic view, Indo Gulf would not be a drag on the Company in the year ahead. Kishor, give the figures.

Kishor Shah: Yeah. Molasses, we had 4.89 lac quintals and bagasse we had 1.15 lac tonnes.

Arya Sen: Okay. Sir, third question, in terms of cane crushing, one of your…Bajaj Hindustan has already talked of giving farmers at Rs.140 per quintal. So, even if the interim order of the court gives…decides on a lower price, do you see a case where because of competition you might need to pay a higher price for cane?

Vivek Saraogi: See, I don't think in today's times anybody would want to pay a higher price. So, come interim order, I said we have argued very solidly on two counts. One is center price, one is gate price. So, after the judgment, I don't think anybody would want to pay higher than what the court says.

Arya Sen: But on an overall basis including the byproducts, you are still…even at 140 Rs. a quintal, you would be making profits right?

Vivek Saraogi: Yes, we have said that cost all inclusive should be now Rs.19 per kg all inclusive, interest, everything.

Kishor Shah: The most important thing what Mr. Saraogi told that we are carrying an opening stock of 316,000 tons which is valued at Rs.14,000 per tonne around. That stock we are selling around Rs.17,500 per tonne now and we believe that the prices should go up from these levels.

Arya Sen: Right. And the Rs.19 that you talked about includes cost of manufacturing, byproducts, etc.

Vivek Saraogi: You see, this is the cost as on balance sheet compared to the cost as on balance sheet, you know, vis-à-vis last year. So, Rs.14 per kg was there, so here it would be below Rs.18 per kg, but if you add interest and everything, it will be Rs.19 per kg. So, I expect that when we start selling the new sugar, right now we are selling the old sugar which is valued at Rs.14 per kg we should get an average of between Rs.17.50 per kg and Rs.18 per kg for that old sugar and we start selling the new sugar, I see an average of Rs.20 per kg for that because that we will begin selling in the month of February and by that time, the whole India's crushing data would be in front of everyone. And by April-May, you would have India's next year data coming out because of the planting season almost coming to an end. We had depletion of inventory this year. We had 5 million exports last year. You have lower production this year and you are looking at lower production next year. I see a price gradual movement only upwards.

Moderator: Thank you very much sir. Next in line, we have Rohit Singhania from DSP Merrill Lynch. Over to you sir.

Rohit Singhania: Yeah, good afternoon sir. I just have two questions. In the first case, since you have already started crushing and we have given in writing that we would pay Rs.140 per quintal as per the court, I mean whatever decision comes, are we not weakening our case per se by agreeing to start crushing and giving it in writing this way?

Vivek Saraogi: Yes, I mean you are weakening your case.

Rohit Singhania: Okay, secondly you mentioned sir even in fiscal 2010 sugar year, your production would be at similar levels, so how do you see the production, the UP cane production going up next year if the cane is sold at Rs.140 per quintal in fiscal 2009?

Vivek Saraogi: Good question. However, you know, even if the farmer gets 140, I don't see a drastic upward movement in UP's production. See, let's understand how cane operates. I want all you people to understand this, you know, because you need to understand this for long term. Cane crushing for any unit is a combination of ratoon cane and plant cane. Now, what is ratoon cane? Ratoon is the growth of the plant cane, you know, there is one ratoon, you put in cane seed today, what you crush in first year is called plant cane. The moment you supply plant cane, you don't supply the entire quantity, you leave a little bit on the ground. Now, that grows back vegetatively and that is called ratoon cane. So, if you had lower planting this year, you have lower plant this year, okay. And you go into a year with a much lower ratoon. So, I do not see under any situation, if you ask my view, I see the cane production in 2009-10 to be 10% lower than this also, but I mean please, that is a personal view, we should regard it as flat.

Moderator: Thank you very much sir. Next in line, we have Karan Vasani from CRISIL. Over to you sir.

Karan Vasani: Good afternoon Sir. Just wanted to know your gross block number at a consolidated level?

Kishor Shah: On a standalone basis, we are at Rs.2550 crore and on Indo Gulf, we should be Rs.82crore.We will let you know.

Karan Vasani: Sure sir. And could you also shed some light on the international situation at present?

Vivek Saraogi: Okay, the international situation, India being the largest consumer and second largest producer of sugar, I will come to that later, first being Brazil. There is a definite, you know, speculation and a negative bias on Brazil because of crude coming down. However, they also have long-term anhydrous ethanol contracts and right now with Brazil is that the speculation is it will produce much more sugar. I do not see that happening. It will produce a little higher sugar, and if I were to give a view, the global prices from here should gradually inch upwards the moment the credit crisis subsides a little. You see what has happened in Brazil, the new capacities which are coming up and which were coming up and are come up, they are stuck with a huge amount of fund crisis. So, lot of them would not be operational. So, the capacity not being operational would offset this crude negative bias. India coming in, you know, with a 5 million export last year and no export this year and probably, you know, six months or a year down the line, at some point of time, raw sugar would have to be imported into India because if we see what I am seeing, you definitely have a case where you would have to begin raw sugar import with a re-export obligation as done in the past. So, with India getting into the global market from being an exporter to be a raw sugar importer, cane production outside Brazil stands you know, at lower levels globally, EU that reform is setting in plus small countries like Cuba etc…have all had those hurricane defects. Pakistan is lower. So, I don't see, you know, global prices moving down from here. Personally, the moment credit crisis gets out of the way; I think it should move up and remain up for two years.

Vivek Saraogi: Indo Gulf is Rs.95 crore gross block.

Karan Vasani: Okay. And just coming back to your own operations, how much of the UP promotion policy is there in the account sir, how much benefit is in account of that?

Kishor Shah: The total during the year we account for Rs.42 crore on account of sugar promotion incentive scheme and out of that, Rs.30 crore is receivable and the balance we got by way of remission.

Karan Vasani: Okay. And would we be accounting for the capital subsidy portion of this?

Vivek Saraogi: No, we have not yet accounted for that. And prior to that, we have accounted for Rs.17 crore. So, total in the balance sheet till date 59 crore, out of which around Rs.42 crore would be receivable and Rs.17 crore are waivers. So, waiver we have not deposited. Rs.42 crore is receivable.

Karan Vasani: And what would be the status on the court case sir relating to the promotion policy?

Vivek Saraogi: Yeah, that continues to be fought very tightly by the industry in the Lucknow bench of the Allahabad High Court. Probably, you know, since it is going to be on a promissory estoppel on the whole policy, it could take a couple of months more. There are continuous dates coming every 15 days, but, you know how courts operate, it takes time.

Moderator: Thank you very much sir. Next question comes from Sachin Trivedi from UTI Mutual Fund. Over to you sir.

Sachin Trivedi: Good afternoon Sir, one basic question on the transfer pricing for both molasses and bagasse that we have and what is the policy on that?

Kishor Shah: So far as bagasse is concerned, we are transferring at Rs.250 per metric tonne and so far as molasses is concerned, we are transferring on a quarterly basis. We decide the price; so, the last accounting year, we transferred at Rs.152. on an average.

Sachin Trivedi: Okay. And sir this Rs.19 per kg cost of production inclusive everything, just wanted to know without depreciation and interest cost, what will be the pure cost of conversion in our case for sugar?

Vivek Saraogi: If you take off interest and depreciation, Rs.250 gross.

Kishor Shah: If we take that off.

Vivek Saraogi: Yeah, you are asking pre interest and pre depreciation? And are you asking even pre other expenses?

Sachin Trivedi: Yeah, pre other also, variable cost I mean.

Vivek Saraogi: Rs.16 per kg.

Sachin Trivedi: So, Rs.14 per kg is the cane cost and Rs.2 is other cost.

Vivek Saraogi: See, it is not this way. Rs.14 per kg is cane cost plus since you have a transport cost, but you will take some deduction, you will lose some money there, so Rs.14 per kg will move up. Now, there is cost, but there is a negative adjustment of molasses and bagasse based on the rates mentioned by Kishor. It is a negative adjustment here, so sugar division takes this as income and then decides the cost. The power division takes input at Rs.250, molasses at Rs.152 and then they decide their profitability based on these costing of bagasse and molasses respectively.

Sachin Trivedi: Okay. And is it right to assume that in case of ethanol, the conversion cost would be roughly around Rs.6?

Vivek Saraogi: No, lower, much lower. Conversion is Rs.3.5 to 4

Sachin Trivedi: Pure conversion, variable cost?

Kishor Shah: No, this includes depreciation, this includes interest cost marginally.

Sachin Trivedi: Okay. And sir, one last question, in our case, how much ethanol quantity that we have locked in to be supplied at Rs.21.5.?

Kishor Shah: Next year, we have approx 1 crore 50 lakhs litres.

Vivek Saraogi: As a percentage to production?

Kishor Shah: Around 20% because last year we supplied around 18% exactly. The same ratio we will supply the next year also.

Sachin Trivedi: And although for next year, what is your outlook on ENA and rectified spirit price wise?

Kishor Shah: As Mr. Saraogi mentioned in the beginning that the outlook is, you know, flattish kind of only.

Sachin Trivedi: Okay, okay. So, maybe it is fair to assume maybe Rs.23-24 per litre of realization there.

Vivek Saraogi: Net of excise, let's, you know, let's be a little conservative at Rs.20-21 per litre.

Moderator: Thank you very much sir. Next in line, we have Ms. Mona Newatia from Corporate Database.

Mona Newatia: Yeah, what is the breakup between ratoon and plant cane?

Vivek Saraogi: See, the band that is what I was trying to explain. The band usually is 55% ratoon, 45% plant. But, you know, that changes and that is what disturbs the cropping.

Mona Newatia: Okay. So, in 2008-09, it would be?

Vivek Saraogi: That is why I was saying what I was saying. I would say 65:35. 65% ratoon. So, 35% being plant this year having a much lower opening ratoon next year.

Mona Newatia: Okay which is why you are not so optimistic on the production figures even in 2009-10?

Vivek Saraogi: This is why I am optimistic on the price.

Mona Newatia: Yes, okay. And secondly you are not expecting distillery volumes to drop despite lower sugar production?

Vivek Saraogi: Yes, because as we have our entire bagasse integrated we don't have our entire group's molasses integrated. There is some quantity of molasses which is open.

Ms. Mona Newatia: Okay, fine. And sir, I didn't get the conversion cost figure, is it something like Rs.2 or Rs.2 .50 paisa for sugar?

Vivek Saraogi: Yeah, you could say so.

Moderator: Thank you very much ma'am. Next question comes from Mr. Nirav Shah from PINC Research.

Nirav Shah: Yeah, good afternoon sir. Just a couple of questions. Sir, first is how much of our debt is due for repayment in FY09 and FY10?

Kishor Shah: 2008-09, we have repayment Rs.105 crore , long-term debt. and 2009-10, we have Rs.145 crore.

Nirav Shah: This is primarily ECBs or domestic debt also?

Kishor Shah: This includes ECBs and the rupee loan, both. And sugar development funds also.

Nirav Shah: How much is the ECB repayment for the next two years sir?

Kishor Shah: That breakup is not available.

Vivek Saraogi: Actually, we will give you the breakup, but for the Company, it is neutral because we are 100% hedged.

Nirav Shah: Okay. And sir, just on the recovery rate, I mean are we expecting to clock around 10% this year or it will be a bit lower because of the flood, etc.

Vivek Saraogi: It could be marginally lower. Maybe 10.16 could come down to 9.9 or 10, you know, that level.

Nirav Shah: Okay sir. And sir, just my last question is another continuation of the question which the previous participant asked, I believe that Bajaj Hindustan is not a part of the UPSMA who has contested the case in the court regarding the SAP of Rs.140, so Bajaj Hindustan will be irrespective whatever the final price is, even say Rs140, and Bajaj being a key competitor to our areas, I mean tomorrow if tomorrow cane price is lower to say Rs.125 or 130 , I mean will we not be facing more competition from Bajaj Hindustan?

Vivek Saraogi: Okay, I need to answer this. Let's understand two-three things. Bajaj Hindustan is existent in all three regions, therefore competition is to all producers, and all producers without Bajaj Hindustan also, you know, anybody near to one another is competition. The cane area gets demarcated as per the reservation order. So, you are correct that Bajaj Hindustan is not part of UPSMA and he is not part of this writ, but let's understand what the court is dealing with. The court is dealing with a notification. The notification by government of UP announcing Rs.140 per quintal. So, the moment…if court is to take a view that Rs.140 per quintal is arbitrary, the notification gets quashed. The moment the notification gets quashed, whether you are a party to it or not, the order stands quashed and hence non operative/stayed, whatever. So, once the operation of order is quashed or stayed, whether you are a party or not, it is applicable to all concerned. The second question, let's play devil's advocate and move ahead from here, if beyond this order also, somebody wants to pay 140 per quintal, then being very honest, everybody will have to pay Rs.140 per quintal. But let's understand legally even if you are not part of a case, the notification gets quashed and you do not have to do anything and you can fall in the price band which the court fixes. Because it is a notification getting quashed.

Nirav Shah: Okay, fine sir, thanks. And sir, just a final question, any part of our buffer inventory is being converted to levy

Vivek Saraogi: No. We have no abiding figures on this.

Nirav Shah: So, whatever is pending is 75% of the 3 million tonne buffer which the government has set up a date for that.

Vivek Saraogi: Yeah. And when we tell you our closing stock, it includes buffer because buffer stance is banded now for July.

Moderator: Thank you very much sir. Next question comes from Mr. Kunal Bhatia from Dalal & Broacha. Over to you sir.

Kunal Bhatia: Yeah, hello, good afternoon Sir, I just missed out on the transfer pricing for molasses and bagasse in our case.

Vivek Saraogi: Okay. When we do costing of sugar division, we account for every bagasse and molasses that has been sold. Bagasse is sold to the power division at Rs.250 per tonne, molasses is sold at Rs.152. We do a negative adjustment of this in the costing. The cost is assuming is Rs.100 and because of the sale of these two products you get Rs.10 we ultimately account for the costing of sugar division at Rs.90

Kunal Bhatia: Sir, what is your outlook on realization in cogeneration sector as in going forward? Currently we are getting about Rs.3.20.

Vivek Saraogi: Yes, we are getting and we are trying to find our way into the merchant power export area. We are fighting and we are trying legal case, whatever, you know, we are trying our best to be able to get some free power. So that, you know, if you come out of this PPA and you are able to, you know, sell it at a higher price, we are trying that effort, but no commitments.

Kunal Bhatia: No commitments, right. And just one more question in regards to what is happening in Brazil currently, I believe due to currency fluctuation on the prices, they are also not very stable. So, what would be your outlook on international pricing for short-term basis?

Vivek Saraogi: Yeah, I said, I mentioned this point and therefore Brazil would have problem in crushing its available cane and global crisis, I don't know what it means, how it will affect, but right now sugar still is and I feel since this is a commodity which is an edible commodity and does not face any kind of demand slowdown which is really perceivable, the moment things settle down, sugar should move up.

Kunal Bhatia: Okay. And sir, finally just a breakup on the sales for the distillery section, as in how much of it is industrial alcohol, ethanol, and rectified spirit.

Pramod Patwari: Ethanol is around 18%. ENA is around 8%.and the balance is RS and DS.

Kunal Bhatia: Okay, thank you so much.

Moderator: Thank you very much sir. Next in line, we have Mr. Sreeshankar from Tata Securities. Over to you sir.

Sreeshankar: Yeah, hi. Couple of questions, you mentioned last year, if I understand clearly, you had 132 days of crushing. Given the current scenario, is the 115 days a fair estimate in terms of crushing because especially I understand that, if I understand clearly again, where your eastern side of production of cane is much lower.

Vivek Saraogi: Yeah, you are correct. You see there are two things one has to keep in mind. One, in Eastern UP, there is no diversion. We don't have Gud and Khandsari. So, that takes away a part of the, you know, sort of cane which goes out of the system. However, you are correct that the production is lower.

Sreeshankar: Okay. The second part is now again coming to recovery and yield, how has been the yield per hectare over there, are we seeing improvement trend or is it stagnant?

Vivek Saraogi: No, yield this year would be lower than last year.

Sreeshankar: Yields will be lower. So, we are expecting from two sides including (a) the plant of cane which is lower, (b) the yield is also lower.

Vivek Saraogi: Correct. That is why we are talking of a production level which is lower.

Sreeshankar: Okay. And how are we accounting for cane production in the current year, that is FY09, and if I assume correctly for FY08 we have assumed at 110 Rs. a quintal. So, this Rs.110 per quintal, is it a final judgment or it is an interim one?

Vivek Saraogi: Okay. Rs.110 per quintal by the Supreme Court is an interim judgment which factored in two judgments of the Allahabad High Court. One which said SMP and one which went on to uphold the price of Rs.125 per quintal. So, in all fairness, it has deliberated on all aspects and then done an interim price once at the beginning of the year and once after the judgment of Rs.125 per quintal came also, it upheld its interim price of Rs.110 per quintal. Now for FY09, we have just begun crushing. No result has been declared for this quarter. Court is on, judgment expected. I think, you know, this aspect we should deal with in the next few days.

Kishor Shah: I think before we come out of the December results, we should have we should have a clearer picture.

Sreeshankar: Okay. That also will take care for what is going to be the final costing for the year ended September 08?

Kishor Shah: Really don't know about that.

Sreeshankar: Okay, fair enough.

Sreeshankar: Okay. You mentioned about incentives. If I understand clearly, of the Rs.59 crore, Rs.42 crore is the receivable and Rs.17 crore is what you haven't paid, not accounted. The capital subsidy is not accounted at all, correct?

Vivek Saraogi: No, we have not yet accounted.

Sreeshankar: Okay. Now, in ethanol which you produce, last year it was 18%, but probably because, you know, it is not…because you got a fixed quantity to pay, it could be significantly higher as a percentage of your production this year?

Vivek Saraogi: It could be higher. You are correct, if distillery production comes down, this percentage moves up. That is a fixed quantity, correct.

Sreeshankar: And the pricing is fixed till what time? Is it September 09?

Kishor Shah: Yes, up to September 09.

Moderator: Thank you very much sir. Next question comes from Rajat Chandak from ICICI. Over to you sir.

Rajat Chandak: Yes sir, my questions have been answered. Thank you.

Moderator: Thank you very much sir. Next question comes from Neha Saraf from Maximus Capital. Over to you ma'am. Hello Neha Saraf, your lines are open, you can go ahead with your questions.

Neha Saraf: International prices of sugar currently are dollar 330.

Vivek Saraogi: Yes, white sugar.

Neha Saraf: With pricing all included, it can go up to dollar 370 approximately, so that is Rs.19 to 20. so sir, won't it be possible to import the sugar provided that the government removes the import duty of 60%. So, how do you expect your prices to go up so much, why wouldn't people import sugar at Rs.19 and not let the price go up above Rs,20?

Vivek Saraogi: See, first of all let me clarify that this is the price, global price as of now. Assume what you are saying is correct that India is to even touch the white sugar market. I don't think this price is in this range at all, firstly. Secondly, the government has to take a view on sugar price as well as power price. So, I do not see under any situation this to be the case of importing white sugar.

Neha Saraf: Okay. Thank you sir.

Moderator: Thank you very much ma'am. Next question comes from Narayana Murthy from Fitch Rating. Over to you sir.

Narayana Murthy: Yeah, good afternoon.

Vivek Saraogi: Yes please.

Narayana Murthy: Yeah, I was just wondering if you could throw some light on the state advice price in other parts of the country compared to the 140 that you are contesting

Vivek Saraogi: Okay, if we see Maharashtra their technical position is SMP; however, there is a lot of farmer unrest there. South is not going to be able to pay less than, you know, Rs.120 per quintal. We believe that, you know, even Renuka Sugars and all, they are looking at Rs.140 per quintal costing, Rs.130-140 per quintal. I mean they said in the contest round Rs.145-150 per quintal. So, the ability of people to undersell going ahead from Maharashtra is going to get limited. So, these are the major parts, Maharashtra, South, and UP.

Narayana Murthy: Okay. And at Rs. 140, what kind of EBIT do you expect from sugar in the current year?

Vivek Saraogi: We personally see a price which is above the cost. So, it would all depend on, you know, what is the price realization.

Narayana Murthy: Okay, But you haven't made any rough projection on what it might be looking like based on assumption?

Vivek Saraogi: See basically we give you the direction. You know the cost. If you are able to factor in the price, you can do it, you know, it is not very difficult.

Narayana Murthy: Okay. And how do you see the ethanol story unfolding?

Vivek Saraogi: The ethanol story going ahead should be in the positive light. We have reconfirmed to the government that despite this lower level of production, industry would be able to cater to the need of 10% provided it is an ongoing policy. The government is also keen because not only is this, you know, environment friendly, you have forex needs, etc. So, government is also positively inclined. But it will move ahead gradually as I see, you know, if it is 3%, 3.5% last year, they should take it 5%, 7%, that kind of thing.

Narayana Murthy: Okay. Do you have any contracts signed up with the oil majors and at what price?

Vivek Saraogi: The price is same for all India, it is 21.50.

Narayana Murthy: Okay. And have you signed any long-term contracts for supply?

Vivek Saraogi: Yes, yes, everybody is locked in till 09 September.

Narayana Murthy: Okay, okay. And for the current year, what is the percentage of revenues you expect from ethanol?

Vivek Saraogi: As a percentage of the distillery division, around 20%.

Narayana Murthy: And of total revenues?

Vivek Saraogi: Very, low.

Narayana Murthy: Okay. How is the liquidity position for the Company?

Vivek Saraogi: By God's grace, we have had all our stakeholders repose extreme confidence in the most trying circumstances in credit market.

Narayana Murthy: Okay. That's it from my side. Thanks a lot.

Moderator: Thank you very much sir. Next question comes from Swapnil Gore from Span Capital. Over to you sir.

Swapnil Gore: My questions have been answered.

Moderator: Thank you very much sir. Next in line, we have Anivash Gupta from Bonanza Portfolio Limited. Over to you sir.

Anivash Gupta: Yeah, thank you, my questions have been answered.

Kishor Shah: Okay, thanks.

Moderator: Thank you very much sir. Next question comes from Mr. Rushabh Sheth from Karma Capital Advisors. Over to you sir.

Rushabh Sheth: Hi Mr. Vivek. I just wanted to clarify that you had said that the realizations that you expect for the distillery division this year to be between Rs.21-22 per litre including the ENA and RS, is it correct because that will mean it is less than last year's Rs.23 per litre?

Vivek Saraogi: No, Rs.23 per litre was last quarter of last year.

Rushabh Sheth: So, average last year must have been how much?

Vivek Saraogi: About Rs.19.62 per litre.

Rushabh Sheth: So, against Rs.19.62 per litre, you are saying Rs.21-22 per litre overall.

Kishor Shah: Yes, around Rs21 per litre.

Moderator: Thank you very much sir. Next question comes from Utpal Choudhury of IDBI Capital Markets. Over to you sir.

Utpal Choudhury: Sir, can you give me closing stock on consolidated basis in terms of quantity and value for sugar, power, bagasse, alcohol, and molasses?

Vivek Saraogi: That is 33 lakh at around Rs.14 per kg

Utpal Choudhury: That is consolidated sir.

Vivek Saraogi: Yes, consolidated.

Kishor Shah: 1.16 lac tonnes of bagasse we had. And 4.91 lac quintals of molasses.

Utpal Choudhury: Okay. Can you give in terms of value also for both bagasse, alcohol, molasses, as well as power.

Kishor Shah: Power, we do not have. Power, we have a little bit for the off season. Power, we do not carry stock much. And alcohol stock is 6,800 KL valued at Rs 11.73 per litre.

Kishor Shah: Sugar is valued at 14.05 per kg. Bagasse is Rs.250 which is the market price. And molasses at Rs. 200.

Utpal Choudhury: Yes. Again, did you purchase any husk for your cogen capacity this time?

Vivek Saraogi: Rice, very minimal quantity for balancing, nothing to write strongly about.

Utpal Choudhury: Okay. And so, another question so far as levy price is concerned, so do you foresee some changes in that going forward?

Kishor Shah: Levy prices have not been revised for the last four years. And we don't expect that to change.

Vivek Saraogi: But there are long-term judgments in place. There is one Supreme Court judgment which says levy price has to consider the actual cane price rate.: So,if at all the Government of India should consider, but if they are not considering, litigation will carry on there. So, you know, it is a tough call.

Utpal Choudhury: Okay. But as of now, you don't foresee any kind of changes going forward?

Vivek Saraogi: Not immediately.

Utpal Choudhury: Not immediately, okay. Okay sir, I have a lot of other questions, I think, you know, I should mail to you, I think that will be right.

Vivek Saraogi: Yes, fair enough, fair enough.

Moderator: Thank you very much sir. Next question comes from Mr. Avinash from Sundaram BNP Paribas. Over to you sir. Mr. Avinash, you can go ahead with your questions, your lines are open. Next question comes from Mr. Rishab Bothra from B&K Securities. Over to you sir.

Rishab Bothra: First of all, if one has to sell merchant power, what would be the realization, it would be touching around Rs7-8 per unit?

Vivek Saraogi: I think Rs.6-7 per unit. Rs.6 to be more realistic.

Rishab Bothra: Sir, the replacement value of plants across both sugar, distillery, and power, what should be the ideal setup cost as on date?

Vivek Saraogi: Setup cost you see, Rs.3,500 to 4,000 crore.

Rishab Bothra: Rs.3,500 to Rs.4,000 crore. Is this for 10,000 TCD?

Vivek Saraogi: No, for our entire plant, See 7,000 tonne plant basically costs around Rs280 to 290 crore. So, 10 times of that is Rs.2,800 to 2,900 crore plus power we have, that we should at least, you know, outside of this, it should cost, you know, Rs.500 to 600 crore which is nonintegrated plus distillery. So, around Rs.3,500 crore.

Rishab Bothra: Sir, could you tell me for 7,000 TCD, you said Rs.290 crore.

Vivek Saraogi: Rs.280-290 crore, Yes.

Rishab Bothra: For 100 KLPD, how much it would be?

Vivek Saraogi: 100 KL of distillery is around Rs.90-100 crore.

Rishab Bothra: For power?

Vivek Saraogi: Rs90 to 100 crore. About Rs.4 odd crore per MW.

Rishab Bothra: If one has to consider the replacement value that is realizable, if one has to sell or one has to procure an old plant, these capacities?

Vivek Saraogi: If you see that, then you must give credit for being located in very good cane areas.

Rishab Bothra: So, ideally in UP, what could be the prices if one has to procure a cooperative mill or a state-owned mill?

Vivek Saraogi: Yeah, it comes to this price only what I am talking.

Kishor Shah: Because this is fully matured and developed cane area. And it might take you 5 years to 7 years to get the maturity.

Vivek Saraogi: And secondly cooperative factories now if you go to buy, the plant and machinery you buy is nothing. You want to run it efficiently, you have to almost go and replace the entire plant.

Rishab Bothra: The land and catchment area would be available.

Vivek Saraogi: Yes, only land and catchment, correct.

Kishor Shah: And we have the most modern plant and machinery.

Rishab Bothra: So, I think probably at this moment, at this point of time, we are very far below our replacement cost as well.

Vivek Saraogi: I think so, yeah. Because even if you take in debt which is Rs.1000 crore and you take in the market cap, it is way below the replacement cost.

Moderator: Thank you very much sir. Next question comes from Achal Lohade from JM Financial. Over to you sir.

Achal Lohade: Yeah, hi, just a couple of follow up questions. First, just wanted to know did we import any raw sugar in 2004-2005 for, you know domestic sales?

Vivek Saraogi: No, we had zero.

Achal Lohade: And what is the probability that we would be importing raw sugar going forward if at all, you know, India as a whole imports?

Vivek Saraogi: Not much, see because we are in we are not in coastal area so the inland transport cost is very high and since we are very bullish on the sugar price and whenever we re-export, no, I am not too sure, so I don't want to carry that, you know the obligation.

Achal Lohade: Okay, but I was wondering like, you know, in the last cycle, like 2004-2005, companies earned as high as 100 dollars per tonne margins in this conversion. So, I was just wondering like the invent cost is so high?

Vivek Saraogi: No, you see let's understand. If you made…I am not sure of this 100 dollars, but whatever you made, when you re-export what is the price domestically, one has to see that no. But if you go to re-export today, you get a much lower realization. So, you have to see the arbitrage value.

Achal Lohade: Okay. So, you think the coastal guys would be able to make money in that situation?

Kishor Shah: It depends basically on the difference between white sugar and the raw sugar.

Vivek Saraogi: Kishor, you ultimately decide if you make money when you have re-exported your obligation.

Vivek Saraogi: That when you know that you made money or lost money.

Achal Lohade: Okay. So, you are talking about, you know, as a whole, as in importing and then conversion and also the re-export obligation.

Kishor Shah: There is cost, you know, importing raw sugar has, you know, port cost, then freight cost, then refining cost, then, you know, re-exporting the same. And then you have exchange risk.

Vivek Saraogi: You have so many variables.

Kishor Shah: So, there are so many variables.

Vivek Saraogi: You don't want to play that.

Vivek Saraogi: And being in UP, we are two way hit.

Kishor Shah: Yes, excise duty and transport cost.

Vivek Saraogi: Yes, both ways, you know, when you re-export also, you have to incur that Rs.150, Rs.120 a bag. To and fro from the port, that is 70-80 dollars. It is not lucrative to us. We don't want to take that, you know, open position.

Achal Lohade: Right. And given our low leverage, you know, and going forward, maybe two to three good years going forward, like we would be having very low leverage, so do we have any plans of putting up any port-based refineries?

Vivek Saraogi: No

Achal Lohade : Do you see profitability of post-based refineries?

Vivek Saraogi: I am not very clear on that, we have no view on that. We will reduce our debt, we will ensure that the confidence which has been put into us even in bad times because of our conservativeness has paid off, and we will not do anything of this sort.

Achal Lohade: Sure, And just another question, this sugar costing, I was wondering like, on the alcohol front, you said your current realizations are Rs.19-20 per litre. and if you consider the excise duties, you would have a Rs.24-25 per litre gross realization, just wanted to know so does it mean that we don't pay excise duty no molasses, how does it like.

Vivek Saraogi: We pay excise duty on molasses, but you get a MODVAT when you sell these things.

Kishor Shah: Like on ethanol and the SDS, we have central excise duty of 15% which we get as MODVAT whatever excise duty we have paid on the molasses.

Achal Lohade: Right. So, it is basically doesn't go to our bottom line right, I mean whatever excise duty we have paid for molasses?

Vivek Saraogi: No, it is easier to compare. I will tell you what, suppose you are selling ENA at Rs.25 per litre Okay, and you are selling ethanol at Rs.21. 16 x 2 is 32, so your ethanol is 24 compared to 25 because there, you don't have to pay duty on molasses. But if you sell ENA you have to pay full duty on molasses.

Achal Lohade: Okay. So, you don't get any benefit

Vivek Saraogi: Correct. So, therefore this Rs.21 per litre is almost equal to that Rs.25 litre.

Achal Lohade: Right. And the other thing is on subsidiary Indo Gulf, you know, I was just wondering what kind of like, why the Company is not able to make money even going…cycle going forward, like you said you might be able to break even, but it won't be a drive on the Company. Just wanted to check like since we are already established, we have very good experience in sugar, so why we are not able to, you know, make money out of this 3,000 TCD facility?

Vivek Saraogi: No, I didn't say we will not make money, I said, you know, if sugar prices go up beyond the costing, even Indo Gulf will make money.

Achal Lohade: So, is it like we operate for lower days in this facility,

Vivek Saraogi: No, it will on the same average as is there for the group.

Achal Lohade: Okay, And on the UP promotion policy, you said you account for exemptions for reimbursements, but you don't account for capital subsidy. So, just wanted to know like if we say we are entitled for the benefit, we should account for everything or on a conservative basis, we don't account for anything now. So, just wanted to check what is your sense on that?

Kishor Shah: No, the capital subsidy in anyway is not an item of profit and loss account.

Achal Lohade: But that would impact the depreciation no?

Kishor Shah: Yes, that would impact depreciation, but, you know, since the scheme is under litigation now, so far as capital subsidy is concerned, we want to have firm view once we get a final decision from the Allahabad High Court and that time probably we will consider.

Achal Lohade: Okay. And the sugar valuation, you said you have 31 lakh bags of sugar on a consolidated basis and which is valued at Rs.14.05 per kg. Just wanted to know like FY2007 we had valuation at Rs.14.4 per kg.

Kishor Shah: No, it was Rs.13.50 per kg because that time the market price was lower.

Kishor Shah: What you said is the costing; the market price was lower, so we valued that stock at Rs.13.50 per kg.

Achal Lohade: So, on one hand you said that our cost of production is Rs.18-19 per kg, while we are valuing the closing stock at Rs.14 per kg.

Vivek Saraogi: That was last year's cost at Rs110 per quintal, so move up Rs.30.

Achal Lohade: So, Rs.3 per kg. additional.

Vivek Saraogi: Yes, correct, and this is pre interest.

Kishor Shah: And second, for costing, the cost and the market price, whichever is lower.

Moderator: Thank you very much sir. Next, the last question comes from Avinash Agarwal from Sundaram BNP Paribas. Over to you sir.

Avinash Agarwal: I wanted to understand your tax structure sir. Do you have any accumulative losses and what kind of tax rate do you see for the next year sir?

Kishor Shah: The tax rate, we are looking at around 21% to 22% Company as a whole.

Vivek Saraogi: Including deferred tax.

Kishor Shah: Cash outgo should be met.

Avinash Agarwal: Sir, and sorry to just go back to the international scenario again, but, you know, with crude prices the way they are and, you know, Brazil having a fair amount of swing from sugar and ethanol, so do you see that, you know, there could be pressure on sugar prices as people shift away from ethanol production to sugar in Brazil, how do you see the dynamics working if crude were to remain around 50-55 dollars for the next one year?

Kishor Shah: What you said is very right. In fact, the crude prices have some kind of linkage with the sugar production. Now, with the crude down to say 50-55 dollars, definitely this will impact ethanol production and we will have more sugar production, but as Mr. Saraogi rightly mentioned that lot of companies in Brazil are under financial stress. You must have heard or must have read the newspaper items that many companies are filing for chapter 11 bankruptcy there. So, we expect that the production will be down. Many companies won't be able to crush the available cane. Therefore, we expect prices to remain firm to stable only.

Avinash Agarwal: Okay, fine sir. And domestically, when do you see the next round of bidding for, you know, ethanol supplies to the petroleum companies to happen?

Kishor Shah: We are in touch with petroleum ministry.

Vivek Saraogi: When is that….next two-three months?

Kishor Shah: That is on a regular basis they are coming in. So, we are basically negotiating the price with them. Once the price is finalized, the tender quantities will be finalized for the next two-three years.

Avinash Agarwal: What is the general level of industry expectation in terms of ethanol prices sir for the next tender, you know, for the next three years, what can be the expectation because now crude is also softer?

Kishor Shah: Around the same level kind of, you know, we can expect, or may be little higher.

Vivek Saraogi: Maybe Rs.1 or 2 higher because crude is not the only variable for the domestic industry.

Kishor Shah: Right. Lot of excise and lots of tax is there.

Vivek Saraogi: And secondly, you are producing sugar and molasses as a byproduct. Molasses being a byproduct here where sugar is lower, production of molasses does fetch a bit of higher price only. So, all this put together, we expect a little bit of an upward revision.

Avinash Agarwal: And sir, in this quarter, I just noticed that you have got about Rs.27 crore from your cogen by selling about 70 million units. So, how come the realization is higher?

Kishor Shah: No, we sold 57 crore units.

Vivek Saraogi: No, he is talking about this quarter.

Kishor Shah: This quarter, 7 crore units was the total production.

Avinash Agarwal: Yes sir, and you sold it and you got a realization of close to Rs.4

Kishor Shah: Rs.3.50. Actually, in fact, we sold 5 crore units, 5 crore 90 lakh units.

Vivek Saraogi: So, your revenue can be only 18 crore. Revenue is 18 crore only.

Avinash Agarwal: Sir, what is 27 crore for this quarter?

Vivek Saraogi: We have an inter-unit transfer also.

Avinash Agarwal: So, that was done at about, can I assume that to be about Rs.7. sir

Vivek Saraogi: No, no, that is a cost.

Kishor Shah: Cost. That is because of the quarterly costing.

Avinash Agarwal: Sir, the 5.9 crore units you must have sold to UP at Rs.3 right.

Vivek Saraogi: Yes

Avinash Agarwal: If I remove that from the calculation, 18 crore, I get 9 crore for the rest 1 crore unit, approximately 1.1 crore unit. I am wondering why it was so high, so I just wanted to understand.

Kishor Shah: For the last quarter, we had a cost of Rs.3.35 paisa because this is the quarter where our cogeneration do not produce, they do not operate for the full three months.

Vivek Saraogi: So, your interest and depreciation increases the cost. If you take the full year, it will be simpler. See, if you take the full year, we have accounted for a total sale 79 crore units.

Avinash Agarwal: Sir, full year, it comes similar sir.

Vivek Saraogi: 57 crore units to outside no and in the division you have taken 79 crore units.

Avinash Agarwal: Sir, inter-division you do it at the cost price basically.

Vivek Saraogi: Okay. Explain that auxiliary, etc.

Kishor Shah: No, in fact, you know, like, you know, for the full year basis, we generated 79 crore units, out of that we sold 57 crore units and auxiliary consumption is there which is used by the plant itself and then the quantity like the 12 crore units which we supply to distillery and the sugar during off-season and season time. So, this is the breakup basically.

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: Thank you everyone for joining us and we are open to questions on mail, phone, Pramod is there, Kishor is there, I am there. So, thank you so much for joining us once again.

Moderator: Thank you very much sir. 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.

- ENDS -

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