



Balrampur Chini Mills Limited
Q6 and 18 Months FY11 Results Conference Call
May 17, 2011

Karl Kolah: Thank you Sandhya. Good afternoon everyone and thank you for joining us on Balrampur Chini Mills' Q6 and 18 Months FY' 11 Results Conference Call. We have with us Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills; Mr. Kishor Shah, Director cum CFO; and Mr. Pramod Patwari, GM, Finance, of the Company.

Before we begin this call, I would like to point out that some statements made in today's call may be forward looking and a disclaimer to this effect has been included in the conference call invite sent out earlier. We will now begin the call with brief opening remarks from the management, following which we will have the forum open for discussion.

I would like to invite Mr. Saraogi to make his opening remarks. Over to you Vivek.

Vivek Saraogi: Good afternoon everyone and thank you for joining us today to discuss Balrampur Chini Mills' operating and financial performance for the 6th quarter and 18 months ended March 31, 2011.

I would like to begin the call with a quick update on the current year's development in the sugar sector followed by the company's performance during the quarter, following which Kishor will take you through our financial and operating performance for the quarter under review.

As per the latest update, India's sugar production for the season gone by is expected to be 24.2 million tonnes, compared to 18.8 million tonnes last year. This was primarily on account of higher acreage. However, the production is lower than the initial estimate of around 25 million tonnes. UP's production is at about 5.9 million tonnes and Maharashtra is estimated to be at 9.2 million tonnes. According to the earlier estimates, the next year's production is expected to be higher by 5 to 7%.



The domestic consumption is pegged at 22.5 to 23 million tonnes with a growth rate of approximately 3% CAGR. Government has allowed sugar export of about 0.5 million or 5 lakh tonnes under the OGL. In addition to the 1.2 million under ALS, that is the advance licensing scheme which was permitted earlier. On account of these factors, the domestic demand-supply scenario looks well balanced.

Domestic sugar prices currently for UP and for our mills are ruling at about Rs. 28 per kg currently. Global sugar prices have been under some pressure and have corrected on account of higher than expected production in Thailand, China and European Union. However, Brazilian production is at the moment lower than expected. Currently, global prices are around USD 600 that is for white sugar and 22 cents per pound for raw sugar.

Government of India is actively considering deregulating the industry, which is a long outstanding demand. However, a final decision is still pending. Government had constituted a committee under Sri Nand Kumar, former food secretary, to look into its various aspects. The committee has already submitted its report. Government again constituted another committee under Dr. Rangarajan, who is the economic advisor to the PM, to look into the various aspects of deregulation. So, there has been constitution and documentation at the highest level recognizing the needs and trying to put in the factor of decontrol and how to go about it.

Let me now briefly take you through our operational performance. We have touched 6.9 crore quintals for the current season versus 5.4 crore quintals last year. This enabled us to improve volumes across segments. Further, sugar recoveries for the company stood at 9.4% as compared to 9.35% last year. Sugar production for the current season was 65 lakh quintal. Higher production and increase in capacity utilization during the peak crushing season has enabled us to lower our cost of production and also has helped our byproduct segment. Government has brought back levy to the original levels of 10%. The aberration of 1 year of 20% stands corrected.

We witnessed higher off-take of ethanol to oil marketing companies. The company sold 8,043 KL of ethanol during the quarter at Rs. 27 per liter. Volumes are expected to increase over the next few quarters. We expect to sell about 3.6 crore liters for the year. The EGOM that is the Empowered Group of Ministers had mandated the oil marketing



company blending of 5% with petrol and fixed an increased price of 27. OMC's have since placed orders on sugar mills for buying 58 crore liters of ethanol. EGOM has also constituted a committee under the chairmanship of Dr. Saumitra Chaudhuri to bring out a longterm formula on the pricing of ethanol. This is a step in the right direction.

The cogeneration business has also witnessed heavy growth in the back of improved sales; higher production will help allied businesses to make better contribution to overall revenues and profitability going forward.

We are confident of the opportunities in our business and underlying value that we have created at BCML. The board of directors had approved a buyback of equity shares from the open market through the stock exchange at a price not exceeding Rs. 85 per share for a total amount of Rs. 110 crore. Till date, the company has bought back 127.84 lakh shares at a total outlay of Rs. 93.2 crore representing almost 85% of the amount allocated for buyback.

To conclude, I would like to mention that our integrated model continues to help us to achieve better profitability and provides a cushion against volatile sugar prices. In the current scenario, a higher sugar production will lead to an improvement in volumes across all our business segments. This combined with a stable outlook should enable us to report healthy operating and financial numbers going ahead.

With that, I would like to handover the floor to Kishor to take you through the financials.

Kishor Shah: Thank you sir. Good afternoon everyone. I will now briefly take you all through the company's financials and the operating performance for Q6 & 18M FY2011.

Revenues for this quarter stood at Rs. 469 crore as compared to Rs. 471 crore in Q2 FY2011. On account of increased contribution from allied businesses, for the 18 months' duration under review, revenues were at Rs. 2987 crore.

The Company's PBDIT stood at Rs. 206 crore in Q6 FY2011 as against Rs. 82 crore, a growth of 151%. For 18 months FY2011, PBDIT was at Rs. 528 crore. This increase in EBITDA was on account of lower cost of production due to lower payment of sugarcane



price as compared to corresponding quarters through the previous year. Also, we have seen significantly higher contribution from power and alcohol businesses.

Moving to our segmental performance, revenues from the sugar segment stood at Rs. 394 crore in Q6 FY2011. In the 18 months' period, revenues from the sugar segment were at Rs. 2,687 crore. PBIT from the segment in Q6 FY2011 was higher at Rs. 96 crore as compared to 87 crore in Q2 FY2011. For 18 Months FY2011, operating profits stood at Rs. 174 crore.

Let me also give you some operating data points. Sugar sales for the quarter stood at 11.47 lakh quintals as compared to 11.23 lakh quintals in the corresponding quarter of the previous year. Blended sugarcane cost during the current quarter was at Rs. 216 per quintal as compared to Rs. 254 per quintal in Q2 FY2011. Free sales sugar in addition for Q6 FY2011 was at Rs. 28.61 per kg.

Moving ahead in the distillery segment, revenues for the quarter were higher at Rs. 50 crore as compared to Rs. 36 crore. Revenues were higher as a result of enhanced volumes in the segment. Distillery sales in Q6 FY2011 stood at 18,942 KL as compared to 13,823 KL in Q2 FY2011. Ethanol sales for Q6 FY2011 improved to 8,043 KL compared to just 12 KL in Q2 FY2011, given the higher procurement by oil marketing companies. Average realizations for ethanol stood at Rs. 27 per bulk liter during the quarter. For the 18 months period under consideration, revenues from the distillery segment were at Rs. 160 crore. Average realization for the quarter stood at Rs. 26.16 per bulk liter as compared to 25.96 per bulk liter in Q2 FY2011. During the quarter, realization of rectified spirit and extra neutral alcohol stood at Rs. 25.54 per BL and Rs. 25.96 per BL respectively. PBIT for the quarter was higher by 52% at Rs. 20 crore. For 18 Months FY2011, PBIT stood at Rs. 45 crore.

Moving on to the cogeneration segment, the segment delivered a better performance driven by higher volumes on account of higher bagasse availability. Revenues from this segment were higher at Rs. 124 crore for the quarter as compared to Rs. 93 crore in the corresponding quarter. For 18 Months FY2011, cogeneration revenues stood at Rs. 435 crore. For Q6 FY2011, average realization per unit of power sold to state power grids is Rs. 4.01 per unit as compared to Rs. 3.93 per unit in Q2 FY2011. Sales from the



cogeneration segment were higher at 21.81 crore units in Q6 FY2011 compared to 15.24 crore units in Q2 FY2011. PBIT for 18 months was at Rs. 184 crore.

With regards to our earnings spread for the quarter was Rs. 113 crore as compared to Rs. 28 crore in Q2 FY2011. Cash profits were higher at Rs. 140 crore as against Rs. 50 crore in corresponding previous last year.

This brings us to the end of our discussion. We would like now to address any question or concerns 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, please press *1 now.

First, we have a question from Girish Achhipalia from Morgan Stanley. Over to you sir.

Girish Achhipalia: Sir, good afternoon. Thanks for taking my question. You said the demand-supply situation is very well balanced. Now what do you see in the second half in terms of prices? You have not seen prices really move up. Do you think that prices may actually move up because crushing is now coming to an end and production estimates have been revised downwards?

And my second question is on next year's production. In terms of the incremental 1.5 million tonnes that you spoke on, would you give some clarity in terms of which states this production is coming from?

Vivek Saraogi: What I would like to point out is that this year began with a certain production estimate. I think this is the first year where the estimate and the actual have almost been at par, with a 2% to 3% difference. 97% accuracy is very good. Secondly, if you see the production demographics, Maharashtra and Karnataka have made the maximum sugar, even as per expectation, probably a lakh or two higher than what they were earlier envisaged. U.P. and the North have made much lesser sugar. I feel that



with the crushing season coming to an end and Maharashtra and Karnataka at their last leg, prices should start looking up from here. The consumptions is robust. We are seeing on ground with the bulk consumers that our market surveys all reveal very clearly the production is up. What has happened probably that people at the trader level or at the wholesaler level, the inventory level to our mind is bone-thin. So, a little bit of uptick also we feel will bring in a good buying scenario, and a lot of sugar has physically left the Indian shores: the ALS sugar has all gone out, and OGL sugar is on its way out. Hence, we feel that going ahead from here, even if you see last year with all those imports and saddling up of inventory, etc., May of last year went to a low of Rs. 26 per kg and then by October, we were back at about Rs. 29 per kg. One sees a similar trend in this year in our mind. I think the prices right now are at that Rs. 28 level. As we move ahead, I think the prices should move up from here.

As far as next year's production, we can only tell you is it is very early to predict, you don't know rainfall, you don't know yields, you know nothing; however, there is some data on the ground which in terms of sowing, and hence, this 5% to 7% I think should evenly balance out, which we are talking of growth next year. For example, if Maharashtra did 92 lakh tonnes this year. 5% increase in sowing should create 97-98 lakh tonnes. UP should do another 4 to 5 lakh tonnes. So, I think this should be evenly spread.

Girish Achhipalia: Then are we suggesting that probably prices hold steady next year?

Vivek Saraogi: My personal view is that consumption is going up more than people can see it. It is a factor contributing to readjustment the trade which is happening. Earlier, you know, trade used to probably hold back, but I can't really tell because I have no data. The trade inventory is right now being held by the industry, because the trade has seen low realizations and it has not made money in sugar after January 2010. If you see that at the peak of Rs. 42 per kg, that probably created the highest level of inventory stocking. That is why prices probably hit Rs. 42 per kg in a peak production month and thereafter trading having lost money on buying and selling sugar in the physical trade has lost money. The trade has gone thin, the inventories are very low, hence that is probably causing this. The moment, I think, that the prices start moving up, the



inventories should also build up. So, I think that even going into next year, I am not bearish on sugar prices at all.

Girish Achhipalia: Thank you sir. Very helpful.

Moderator: Thank you very much sir. Next, we have a question from Sanjaya Satapathy from Bank of America - Merrill Lynch. Over to you sir.

Sanjaya Satapathy: Hi sir, one thing just wanted to understand from you on the export front. Can you just tell us how much sugar exactly has been exported out of India already? And I just wanted to understand what the price that exports are fetching right now.

Vivek Saraogi: There were 3 types of exports now if you go into the detail. First was the raw sugar which people had imported, who had not bought it through the mills, and remaining sugar lying at the port, that was allowed. Second, ALS was allowed. In the third leg, this OGL has been allowed.

Sanjaya Satapathy: So, how much quantity has already been exported out?

Vivek Saraogi: In ALS, almost the full export allowance is out. Now, out of this, I think 5 lakh should also get out in the next 1-1/2 to 2 months. I think before the onset of full-fledged monsoon by the end June, this should also be out.

Sanjaya Satapathy: Sir, can you tell us how much price are Indian players getting for this OGL exports right now? I just wanted compare that with the international price to understand how exactly the export pricing is happening?

Vivek Saraogi: Export pricing is a factor of who has sold when. If people sold earlier in anticipation, they got a better price. Again, export prices are a factor of quality. If you tell that premium sugar which is the refined sugar, you get a better price; however, having said that, Rs. 28 per kg or at best Rs. 30 per kg what would be available today if today somebody is to do a new contract.



Sanjaya Satapathy: So, the price that Indian exporters get is exactly the same as that of the International price of white sugar. There is no premium that Indian manufacturers get because of its proximity to certain consumers.

Vivek Saraogi: Not much. If you time the market, it is fine, but not as of now. See, I will tell you how this OGL has been distributed, how people are going about there and what we have done. OGL has been given as a pro-rata entitlement to your production. So, what people have done and what we have done is to either physically ship your own sugar against that entitlement or sell that entitlement to someone or buy someone's entitlement and sell that out and ship the physical sugar. So, since there is no premium, we have sold our entitlement and we have got the money. We have sold the entitlement at Rs. 250 a bag or Rs. 2,500 a tonne premium, and we have received the money. So, that will be available in our hands in this quarter, which you will see reflected.

Sanjaya Satapathy: Sir, how much quantity?

Vivek Saraogi: We have got about 13,000 tonnes. So, we got about Rs. 3 crore 20 to 30 lakhs for selling our entitlement, and we retained our sugar to be sold in the domestic market. See, why we took this decision is because we feel the sugar prices should see an uptick from here and that secondly we were getting no premium beyond what we were selling today. So, it is better to get cashed in and hold on to the sugar, and our factory is located in UP, which has a further disadvantage of that transport. Now, if you see Maharashtra prices, they are still at Rs. 25-1/2 per kg. So, it makes sense for Maharashtra and Karnataka to probably send out their sugar. If you notice in the beginning of the call, I said that the production demographics are located in a manner that most of the North has deficit, if you see the overall consumption and you break it up into pro-rated to production. And Maharashtra and Karnataka are surplus. Most of the ALS export and this OGL export is moving out of these two states.

Hence, my assumption is that prices are gradually moving upward from here because the whole country is getting very well balanced.



Sanjaya Satapathy: For my next question, I just wanted to understand from you that with the Uttar Pradesh election are you apprehensive of that will have some kind of impact on the sugarcane pricing going forward?

Vivek Saraogi: See, if you ask me personally, there has been a lot of movement on the policy front. I can well understand that every time people question this and we say the same thing, but all one can say is that we look forward to it with lot of optimism. The Nandkumar Committee and the Rangarajan Committee which I mentioned basically decides other factors of deregulation. The main point which is being referred to is cane price linkage with sugar price. Now, we feel that once this is anywhere near recognition, you have a completely fantastic atmosphere going ahead. Having said that, the ability to raise prices on sugarcane with various judgments without any movement upwards in sugar price beyond cost is going to be very difficult, come election or no election.

Sanjaya Satapathy: Okay, and sir just one question on Balrampur Chini, I mean, what could have been the reason for you to go for the buyback and bring down the dividend amount? I mean, going forward, what should one think of in terms of dividend payout or whatever buyback?

Vivek Saraogi: See, Balrampur has always been able to distribute the cash in hand. Now, if you distribute it by the way of dividend or by the way of buyback, there were various questions put to me on acquisition. I said we internally debated that this is the best acquisition you can do. At Rs. 70, let us say, approximately, the market cap is Rs. 1,750 crore. So, at Rs. 2,450 or Rs. 2,500 crore Balrampur enterprise value, we want to buy Balrampur and I am just trying to say if an acquisition opportunity is available to me with this kind of thing which I know best, Rs. 4500 crore is our feeling for replacement cost. If I am getting it at Rs. 2500 crore, why would I look outward? So, the best acquisition for Balrampur is Balrampur itself. That has been the rationale on acquisition. Cash on the hand is an availability which is total. So, if you spend on buyback and dividend, I think it is money well acquired for longterm value of shareholders.

Sanjaya Satapathy: Thanks a lot sir and that is all from my side.



Moderator: Thank you very much sir. Next, we have a question from Nirav Shah from Antique. Over to you sir.

Nirav Shah: Good afternoon sir. Sir, what is the inventory we are holding as of March and what is the carrying cost of that?

Vivek Saraogi: Yeah, we also did receive a few questions on the inventory, etc. See; let me clarify that now after having shifted our year-ending to March, the inventory today is valued at Rs. 26.54 per kg in free sugar and Rs. 19.17 per kg, levy sugar. We have about 5 lakh tonnes of total sugar. Free sugar valued at Rs. 26.54 per kg of pre-entitlement. Levy entitlement valued at Rs. 19.17 per kg. So, we begin this current year, which will now recorded for the next 12 months with this level of inventory, and this is the cost of the inventory.

Nirav Shah: Sir, just looking at your results, in the sugar division, we have made profits of somewhere around Rs. 96 crore, so that translates into PBIT per tonne of around Rs. 8,300 over that. Sir, can you just help me out understanding the breakup of the costing because we are making profit of around Rs. 8-1/2 per Kg of sugar, where as the realizations on average is somewhere around Rs. 27.5 per kg.

Vivek Saraogi: See; let us understand that the net impact of everything, including quarter to quarter realization and quarter to quarter costing, is that you have an inventory valued at the price I told you. If this was probably a quarter result, inventory value may be slightly lower, but the impact is clear. So, if you have got a slightly higher profit in the sugar division because of the inventory valuation which is an accounting standard for requirement at the year end. Have I clarified what I am trying to say?

Nirav Shah: Sir, because our December quarter inventory was again valued somewhere around similar levels, marginally higher than this, if you translate that with the sugar prices in the market, then you know, you are getting a profit of somewhere around Re. 1, - 1.5. Still I am not able to get the breakup of this Rs. 8.3 profit. Can you just help me on this please?



Kishor Shah: During this quarter, there were hardly any fixed overheads like repairs and maintenance, etc. for last season and this season or 18 months. Whereas the expenditure is only for 18 months and the production for 2 seasons.

Vivek Saraogi: If you go back to last year, it will get simpler for you if I try to explain this year. If you go back to when Balrampur used to do its accounting in March (and we have had to switch back to March because of IFRS), you saw what happened is similar. So, now, you have 4 quarters ahead, 2 are non-production quarters and 2 are production quarters if you look at next year. So, if you take the next 2 quarters, they are nonproduction quarters. If you take the next 2 quarters thereafter, they are going to be 2 production quarters. So, it is going to be evenly balanced. You have this inventory of free and levy, you have the cost in front of you: Rs. 26.54 per kg and Rs. 19.17 per kg, and you have the fact that where you have 2 quarters of nonproduction and 2 quarters of production, that ends the inside accounting changes.

Nirav Shah: Fair enough sir got it sir. Thank you sir.

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

Achal Lohade: Sir, if I look at percentage of sales, the raw material cost has come down from 68% to 32%. I think that is a significant decline, so I was just trying to understand if we have valued the opening inventory at about Rs. 26 to 27 a kg and the realization is about Rs. 28 per kg. The spread is about Rs. 2 per kg, how then....?

Vivek Saraogi: I will try and explain it to you better; I will give you an example. Probably the cost of sugar, the inventory would have been valued at Rs. 100 lower or Rs. 120 lower. See, why you are seeing a difference in the sugar segment result is that even though we still retain our efficiency and performance by a wide margin, the aberration of all your questions is because of this recognition in 18 months profit. I am simplify. If probably this thing did not come in, your inventory which is valued at Rs. 26.54 per kg would have been valued somewhere around Rs. 25.34 per kg or something like that. So, if you went down Rs. 120 per quintal, your inventory valuation would have been Rs. 25.34 per kg. PBT levels would be Rs.50 crore lower or Rs. 55 crore lower. If you net it



off with tax, you would probably have a net which is Rs. 40 lower or Rs. 35 lower. Now, if you went ahead with that inventory at that cost, your next 2 quarters would have looked a little better. So, if you just understand that this inventory valued at Rs. 26.54 per kg covers everything and because of which you have had higher profit, this will explain all the parameters and ratios and everything.

Achal Lohade: Right. In terms of the inventory valuation, do we follow the weighted average cost or FIFO sir?

Vivek Saraogi: Weighted average.

Achal Lohade: And that is probably why the valuation is higher than otherwise.

Vivek Saraogi: Yes.

Achal Lohade: On the balance sheet, we have shown negative shareholders funds. I was just trying to understand the reason for that negative number in shareholders account. What could be the reason for that?

Pramod Patwari: That is the amount paid for buyback of shares which are yet to be extinguished as on the rate of the value.

Achal Lohade: And I know we are currently repaying our debt. I was just trying to understand what our scheduled repayment for FY12 and FY13?

And on the broader strategy, how do we see growth coming? I understand that utilization would be slightly better next year, but let us say from a 5-year horizon, how do we see Balrampur Chini 5 years down the line?

Pramod Patwari: In FY12, we have a repayment obligation of around Rs. 350 crore and a year thereafter around Rs. 100 crore.

Kishor Shah: This is for the repayment of ECBs.



Vivek Saraogi: Okay, now, we come back to your question of where you see us in the medium to long term. See, going ahead, right now, in the next 1 year or 1-1/2 years, we see value coming in as you said. We expect to see a good increase in volume and then a very good utilization of power and ethanol businesses. The power segment in a quarter has never performed to this level. We are basically utilizing the power segment, debottlenecking, continuously improving and we are looking at some smaller investment into the power units all over and trying to enhance the value more and more there.

If you see the distillery, right now the ethanol report is still under finalization, but the very clear concept is that there is a linkage proposed with the petrol prices, which is the retail petrol prices. Since having gone up Rs. 5 per litre in the last 2 days with one quarter lag, better realizations should be available to us. So, as we go ahead, we see this ethanol realization really moving up. If this Rs. 27 per litre, I don't think it can remain anywhere below Rs. 32 to Rs. 33 per litre as we move ahead, already factoring not based on any further rise. But based on the current price, it should be anywhere between Rs. 32 to Rs. 35 per litre. I repeat, with one quarter lag. One quarter lag would mean that this price should be available after July 1st. The earlier price rise should be available from 1st April. The ethanol realization going forward is probably not what it looks like currently; it would be higher. The report is under its final stage and it should be probably out very soon. So, you have going ahead very strong visibility on these two scenarios, and you have very strong visibility in the power and ethanol segments, and we are not open to any vagaries. You know, the power is tied up, it is a longterm PPA. There is no linkage to open access prices. Thereafter, as I said earlier, we will be looking at policy clarity. Any policy clarity will then tell us what we need to do ahead later. See, there is a linkage and if there is deregulation, we would invest very, very strongly into the sector.

Achal Lohade: I am just trying to understand, we will be having a significant reduction in debt. We would be fairly lean but in terms of diversification, probably we may look at Maharashtra and Karnataka, so I just wanted your thoughts on expanding capacity to probable acquisitions through leases or outside purchases for Maharashtra and Karnataka mills or probably going out in Brazil or setting up a refinery. What is our thought on that because I think on the cane crushing; we are subject to cane availability which is not in our control because it all depends on the cycle. So I was trying to understand your views on the same.



Vivek Saraogi: If you see this year, U.P.'s production has gone up by let us say 15%. Our cane crushing has gone up by 30%. So, it is not that you are totally restricted by U.P.'s availability, we worked hard and we are putting in the time and energies into a lot of cane development activity. We have retained global consultants and we are very seriously working ahead on that. So, we don't think our crushing in Balrampur and our recovery will be limited by U.P. region. We are looking to outperform that by a margin. On the acquisition front, as you said about Maharashtra, Karnataka, etc., we are waiting for some policy clarity in the sector. See, we have extreme policy clarity on the ethanol business now. We have extreme policy clarity on the power business. Now, one would wait for sugar clarity to invest into these businesses. On refinery, we don't think that putting up a new refinery at this point of time makes any sense because we don't see India to be in any serious deficit. Neither do we see big surpluses, so we don't see any big opportunity in that sector. Hence, we will be waiting for policy clarity and we will be actively reducing our debt and reducing our interest cost. Waiting for the right opportunity and working in all our businesses, debottlenecking them, investing to cane development, investing into power and ethanol in our own company.

Achal Lohade: Right, thank you so much. Just one last data point question. Sir, you mentioned a decrease in realization. I am trying to understand what is the blended realization and what is the total sugar volume including levy?

Kishor Shah: Total sales are 11.47 lakh quintals and the blended realization is 28.35 per kg.

Moderator: Thank you very much sir. Next, we have a question from Jehan Bhadha from Darashaw. Over to you sir.

Jehan Bhadha: Hello sir. My question is on the cogeneration segment. Sir, the total power production for this quarter was 329 million units, out of that can you give us the split between one that was generated from bagasse and from coal?

Vivek Saraogi: This quarter was entirely from bagasse.



Jehan Bhadha: Is that why we are not seeing any power sales on coal?

Vivek Saraogi: Yeah, that will come ahead now. From April 15th, we are selling coal power also.

Kishor Shah: That is during off season.

Moderator: Thank you very much sir. Next, we have a question from Manish Bhandari from Vallum Capital. Over to you sir.

Manish Bhandari: Good afternoon sir. Sir, my question is regarding the inventory days, which our Company is holding. Sir, if you look at the cycle since 2000 and till date, we have seen decline in inventory days in the previous year, in which the sugar prices have fallen down. The period after that, and currently also if you see the inventory days, it has been reduced drastically from 2009 and 2010, it has been almost halved. It is a general observation and if you compare with other companies in the sugar industry, they are also following the same prices, so sir just wanted to get a clear idea from your end regarding this observation.

Vivek Saraogi: See, inventory levels, etc., even today, 80% to 90% are decided by the government. If you see every month, there is a free sale quota, so that decides the inventory level.

Manish Bhandari: Is this because of the quota level or is it because of company policies?

Vivek Saraogi: It is mostly because of quota. Company policy is hardly playing a role. We have good inventory; we have a total of 50 lakh bags. It is not bad.

Moderator: Thank you very much sir. Next, we have a question from Anup Ranadive from Tower Capital. Over to you sir.

Anup Ranadive: Good afternoon sir. You mentioned your inventory holding cost at Rs. 26.54 per kg since accounting here has changed. And Kishor mentioned that some



uptick over repairs and maintenance is typically booked in the second half. So, sir, I just wanted to understand in the next 2 quarters, how much additional cost are we looking at to add to this Rs. 26.54 per kg.

Kishor Shah: As Mr. Saraogi just explained to everyone that this cost is finalized at Rs. 26.54 per kg. As for the next year, we will have 4 quarters, two quarters of season or production quarters and two off-season. So, we will have to see the next year as a full year.

Anup Ranadive: Right, but the next year would start somewhere in October.

Kishor Shah: It starts September 2011 to March 31, 2012, that will be the full year, the accounting year, where two production quarters and two quarters off season. So, we cannot see these next 2 quarters in isolation.

Anup Ranadive: Okay, fair enough, and could you give us the figure of your inventory of ethanol and the holding cost for it?

Pramod Patwari: Ethanol around 11,500 KL

Anup Ranadive: What is the price and cost of inventory?

Pramod Patwari: It's valued at around Rs. 15 per bulk liter.

Anup Ranadive: You said that UP production has gone up by 15% whereas your production has gone up by 30%. So, that is a great number sir. Could you explain how that was achieved and going ahead, can we see that your crushing exceeds the growth in UP in terms of cane production?

Vivek Saraogi: Yeah, as I told you, we are now working extremely hard with the farmer and with I would say the best consultants all over India as well as globally, to increase yield in our area and recovery. So, we feel that not only yield but also recovery and that means volume as well as recovery. Balrampur would grow in the next 2 to 3 years of



performance beyond U.P. That is our expectation and we are working very hard towards it.

Anup Ranadive: Regarding the power sales through coal, could you give us some guidance in terms of how much you are targeting to on that front?

Vivek Saraogi: Because coal prices have gone up and we had luckily managed to tie up some coal earlier, we will be probably selling coal power. We have two facilities of coal, Haidergarh and Mankapur. One will be selling for about 2-1/2 months and another for about 1-1/2 to 2 months. So, they will have an average coal power sale of about 2 months.

Anup Ranadive: And sir, price would be the same?

Vivek Saraogi: Yes, we have got contract at Rs. 5 per unit.

Anup Ranadive: Sir, that is it from my side. Thanks very much.

Moderator: Thank you very much sir. Next, you have a question from Nirmal Shah from Alchemy. Over to you sir.

Nirmal Shah: Sir, I just wanted to know what is your rate of interest on working capital as well as long term debt?

Pramod Patwari: Long term is around 9.25%. Working capital is within 9.25% to 9.5%.

Nirmal Shah: Thank you.

Moderator: Thank you very much. Next, you have a question from Sanjay Manyal from ICICI Securities. Over to you sir.

Sanjay Manyal: Hello sir, I have just one question regarding the exports. How much did Balrampur get on the ALS and under OGL?



Vivek Saraogi: No, we have nothing in the ALS and as I told you, we had about 13,000 tonnes entitlement on OGL, which we have sold for about Rs. 3.3 crore.

Sanjay Manyal: And can you give me the inventory levels for bagasse and the molasses?

Pramod Patwari: Molasses is around 20 lakh tonnes, bagasse is 3 lakh tonnes.

Sanjay Manyal: Okay, that is it. Thank you.

Moderator: Thank you very much sir. Next, we have a question from Hemant Himnani from Enam Securities. Over to you sir.

Yash Jhaveri: Good afternoon sir, this is Yash. I just wanted your cane crushing guidance for FY12. You said UP production is set to increase by 5% to 7%, so would it be fair to assume there would be a 15% rise for Balrampur in terms of crushing?

Vivek Saraogi: Yes, yes.

Hemant Himnani: Okay and Hemant Himnani here. Sir, just one question on the Brazil outlook that you had given. On recent news, UNICA has mentioned that the output has fallen for the month of April. How do you read into this?

Vivek Saraogi: Yeah, I agree with that.

Hemant Himnani: And for the sugar year, how do you read into Brazil's output? Is it likely to be at the same level or lower?

Vivek Saraogi: It is very difficult to say, but whatever little we track, Brazil should not be much higher.

Kishor Shah: Brazil should be at par.

Vivek Saraogi: At par, maybe slightly lower.



Kishor Shah: 1% or 2% lower than the last year.

Hemant Himnani: Okay, alright sir. Thanks a lot and best of luck.

Moderator: Thank you very much sir. Next, you have a question from Kunal Vora from BNP. Over to you sir.

Kunal Vora: Good afternoon sir. Firstly on deregulation. Sir, earlier, the central government had referred deregulation to the states. What is the feedback from them? Are they open to deregulation of key things like sugarcane price, and also going forward, what would be the timeline we can look at for some development on the deregulation front?

Vivek Saraogi: Now, deregulation has been broken up into 2 parts. One is finished product, one is raw material. Now, the central government does not require any consultation on the finished product. Finished product would mean sugar and deregulation would mean abolition of relief as well as abolition levies from industry, I repeat, abolition of levy from industry, which means the government would be in its full right and would want to run the previous program as being done; however, the sugar taking from the mills at a lower price would cease to happen and they would buy sugar on tender basis and give it in the PDS segment. So, this part does not require the state consultation, and I firmly believe that the government is looking at this. Part of the deregulation which I repeat is the finished product part in isolation, and I think that now is moving on the fast track. Other part is raw material, which is cane, which has 2 parts to it. One, cane price should be determined as a percentage of sugar price and two, de-reservation of cane area. That probably is now entering the consultation stage.

Kunal Vora: Okay, so we started the current year with about 4-1/5 to 5 million tonnes and on my computation, we will be ending this year at about 4.8 or 4.7 million tonnes. So, it looks like the inventory position is still like pretty decent and going into next year, outlook for production is also good, and exports again. Last year, we had raw sugar, which we re-exported, and we had the ALS export. We don't have anything in pipeline right now. So, do you think sugar prices will go up from current levels?



Vivek Saraogi: See, the reverse is true. If you see normal inventory levels of 5 years back and today. We earlier used to be working 2-1/2 months inventory. So, let us say consumption is about 20 lakh tonnes a month minus 1 lakh, or maybe 19 lakhs a month, so 2-1/2 months inventory, 50 lakh tonnes. So, I would say we are going to begin with 40 lakh tonnes or 45 odd lakh tonnes, which is not much. This ALS and this raw sugar and this imported sugar excess which we had, have all gone out, so there is going to be no regional surplus, no port surplus and no trader surplus. There is going to be a trader deficit and because of that, their inventory levels or the pipeline as we call it is very low. So, I don't see that these factors should put in any pressure and again we are going into next year's production. Instead of 24.2 million tonnes, you make 26 million tonnes. Even then, there is not much surplus. It is just a million tonne threshold this year and next year which gets everything.

Kunal Vora: Thanks sir, and lastly, on the capex, what is the guidance for FY' 12?

Vivek Saraogi: Yeah, we are going to be investing into our plants and there will be some debottlenecking around Rs. 15 to 20 crore, which will further enhance our power business. Rs. 25 crore will be spent mostly on the power front.

Kunal Vora: Thank you sir. I am done.

Moderator: Thank you very much sir. Next in line, we have Segraj Baria from Angel Broking. Over to you sir.

Segraj Baria: I just wanted to confirm, what will our revenues be from coal power for the next year, somewhere near Rs. 30 odd crore?

Vivek Saraogi: Yes, exactly, give or take Rs. 2 crore so it may be Rs. 28 crore in all.

Moderator: Thank you very much sir. Next, you have a question from Sangameswar Iyer from Alfaccurate Advisors. Over to you sir.



Sangameswar Iyer: Can you just give the guidance for the Company in terms of the volume of sugar for this particular year?

Vivek Saraogi: We just said that we had 50 lakh bags total and we hope to outperform UP. If UP goes up by 7% to 8%, we hope to go up by 15% production.

Moderator: Thank you very much sir. Next, we have a question from Kaushik Poddar from KB Capital Market. Over to you sir.

Kaushik Poddar: My question is in two parts. What is your current capacity across all companies, and at what price of sugar, does it become remunerative for you to put up a new sugar plant?

Pramod Patwari: The aggregate capacity is 75,000 TCD.

Kaushik Poddar: And at the present market price, does it make any sense to put up a new Greenfield plant or does the price have to be at a particular level for you to put up a new plant?

Vivek Saraogi: New Greenfield plant today, I don't think would make any sense because you have acquisition opportunities at a lower price. So, either you have listed companies where you have great opportunities or the first opportunity as I mentioned was our company itself.

Kaushik Poddar: That is your buyback that you just talked about.

Vivek Saraogi: Correct, and secondly to put up a Greenfield plant, you need a right location. It is not only money. See, suppose you want to put up a Greenfield plant in an x area. You need to have adequate cane in that area. Probably instead of Greenfield, acquisition policy clarity is a much better route. It does not make sense to put up a Greenfield presently.

Kaushik Poddar: Okay, and what is the thumb rule for putting up a 5000 TCD plant?



Vivek Saraogi: See, with power and distillery, a 7000 TCD plant would cost Rs. 400 crore.

Kaushik Poddar: And is your capacity 75,000 TCD?

Vivek Saraogi: Yes.

Moderator: Thank you very much sir. Next, we have a question from V. Rangan from Brilliant Securities. Over to you sir.

V. Rangan: Sir, you have stated for the 7000-TCD plant, it costs Rs. 400 crore and this is inclusive of power and distillery?

Vivek Saraogi: Yeah, with power, distillery.

Kishor Shah: Sugar plus cogeneration and power.

Vivek Saraogi: We are just giving you a ballpark figure of an integrated sugar plant. Just off the hook question, so 7000 TCPD plant with power and distillery will easily cost about Rs. 400 crore.

V. Rangan: Okay. Now, regarding the results for the 18 Months and 12 Months, I can see that, there is a loan fund about Rs. 990 crore last year, I mean, for the 12 months 2009 and for the current 18 months, you have got about 2009 crore, vis-à-vis inventory is Rs. 351 crore. In the current year, it is Rs. 1491 crore. Can you just read anything on how this translates because for the 12 months and 18 months there?

Now, the second question is that assuming that your cost is about Rs. 26.54 per kg something you are telling, and assuming that we don't get anything for the next 1 year, it is going to be about Rs. 28 per kg. How much would be the PBT roughly from the power itself our company makes?



Pramod Patwari: The increase in the loan is mainly because of the higher cost of production. And we are carrying much higher inventory than compared to corresponding period.

V. Rangan: Any period for the last 5 to 10 years, correct? Or due to 18 Months period like that?

Pramod Patwari: We are talking about 18 months. September 2009 versus March 2011. Physically in September we don't carry much inventory and March we have peak inventory.

Vivek Saraogi: Correct.

V. Rangan: I think that you will pay back at least the loan of about Rs. 1000 crore this year. How much do you intend to pay assuming that you get about Rs. 28 per kg or something like that? What would be the repayment?

Vivek Saraogi: Let us break this loan, as Pramod told you in the call that out of this, long term debt is Rs. 700 crore and the working capital is Rs. 1300. Working capital, suppose we were to make a balance sheet in October, would have been almost zero. So, you would have seen the balance sheet and if the repayment was done, let us say Rs. 150 crore, you would have seen October 1st balance sheet at Rs. 550 crore. It depends on when you time the balance sheet.

V. Rangan: But don't you think that prices are fixed? The sugarcane price is based on the sugar price on a particular month, but where as the sugar price last year in April was Rs. 40 per kg. Within about a month, it came down to Rs. 30 per kg. Now we ended in a loss something like that. Some mechanisms can be formed because on the basis of the sugar price being this much, a percentage like that cannot be associated?

Vivek Saraogi: No, it is not an average price and as I told you, that is the committee of Dr. Rangarajan who is the highest authority in the country, they are dealing with it.



V. Rangan: Okay, based on the price and everything. I asked you about the question assuming that you get nothing from the sugar, I mean, net profit....

Vivek Saraogi: See, we are on the practice of giving figure wise guidance on the sector; we have given you a conceptual guidance.

Moderator: Thank you very much sir. Next, you have a question from Girish Achhipalia from Morgan Stanley. Over to you sir.

Girish Achhipalia: Sir, just, if you could spend a minute on the ethanol opportunity that we have over the next 1 or 2 years. Could you give us a broad outlook?

Vivek Saraogi: See, the ethanol opportunity is very large and so is the power. We make at our Company and any sugar company our own molasses, our own distillery, our own power and hence, we have the ability in the integrated plant to make ethanol round the year, at least 10 months dispatched over 12 months. Now, this is the first time when the government has made 2 decisions.

One, the quantum is going to be 5%. So, the buying order for Rs. 58 crore has been ceased. The second decision is that the pricing will be as per a formula. The formula besides other the main linkage is through the retail price of petrol. If we see at the beginning of the year, that is the pre-December petrol price rise, the ethanol formula, the base formula was at approximately Rs. 27 per litre. You had 2 petrol price hikes after that. With one quarter lag effect, one quarter lag means with one quarter delay, which means even if it goes up or comes down, with all assumptions being based on the report, the ethanol price from July 1st, should be anywhere between Rs. 32 to 35 per litre. This would continue to be matched or co-related with the retail petrol price. The logic being the ethanol which is picked up by the OMCs are physically mixed at the depo and hence it is being as petrol, so we get the back calculation of that.

So, the opportunity going ahead will be immense, with volume growth in India on the petrol front, we see that the size moves up to 7 to 10 KL over a 2 to 3-year period. One looks very optimistically at the pricing. If there is still a loss to the oil marketing companies and if that sector is deregulated, prices remain even here for petrol, we will



be looking at Rs. 32 to 35 per litre, which is a big uptick from the current levels. We see this as a long term opportunity. You have quantity defined. You have price formula defined. Hence there is no area for ambiguity between the buyer and the seller, with the buyer being the oil marketing companies, seller being the sugar companies. As a long term opportunity, the oil marketing companies will not lose a penny. They will make some money on this as well as improve the environment angle. So, we see this as a very large opportunity.

Same is the case with power. If you see the RPO, that is the reasonable power obligation, it is now being practiced very strictly. So with that going up, we see that our renewable power which is at around Rs. 4 per unit now from 1st April, will move up by 2% more. Every April, it is reset 2% higher. So, that is how you saw Rs. 3.93 per unit going to Rs. 4.01 per unit, which would go to Rs. 4.09 to Rs. 4.10 per unit. As we move ahead, that should also represent an opportunity which can give you more returns. One can safely look at selling all what you make and selling at the price which is not lower than this. So, this is how we see these 2 sectors.

Girish Achhipalia: Thank you very much sir. Very helpful.

Moderator: Thank you very much sir. Next, we have a question from Jignesh Kamani from Nirmal Bang. Over to you sir.

Jignesh Kamani: Sir, given expected production was about 24.5 million tonnes, what is the breakup between new crop and the ratoon crop, and how will this scenario look in next year? How is the sugarcane plantation in terms of the new crop and the breakup between the ratoon crop?

Vivek Saraogi: No, the breakup for the country is not available with anybody.

Vivek Saraogi: But usually the formula is half-half.

Jignesh Kamani: How is the scenario next year going forward because I think more will come from the Western crop?



Vivek Saraogi: Again, very tough to say. It depends not only state to state, but mill to mill. So, for one miller which is Balrampur Chini Mills to get that is very difficult.

Jignesh Kamani: Okay, and sir, with election in the mind, do you expect any increase in the SAP price and what will be your blended sugarcane pricing next year against Rs. 216 per quintal this year?

Vivek Saraogi: It is very difficult to answer this question at this stage.

Jignesh Kamani: No, but just ballpark; will it remain at that level or will we see some upside of downside?

Vivek Saraogi: See, it will all depend on alternate crop, sugar prices, etc., etc.

Jignesh Kamani: Okay, but it won't be premium to SAP on account of plenty of availability?

Vivek Saraogi: No, no premium. If you see for this year, that is a good point. Forget Balrampur, I don't think any miller in UP has paid premium for cane.

Jignesh Kamani: Sir, any idea on the entire, you can say outstanding cane price of the sugarcane millers in the UP?

Vivek Saraogi: We will get back. Right now, we don't have the figure but it was around Rs. 1000 crore I think a month and a half.

Pramod Patwari: Rs. 700 crore.

Jignesh Kamani: Okay sir, thanks a lot.

Moderator: Thank you very much. Next, you have a follow-up question from Segraj Baria from Angel Broking. Over to you sir.



Segraj Baria: Yeah, sir, there are two quick questions. How are the crop economics currently; is it in favor of cane plantation?

Vivek Saraogi: Very good question. I think it is totally at par.

Pramod Patwari: With other crops, particularly with wheat, rice and all.

Vivek Saraogi: See, what is happening, with any location near the cities, the land is a big premium for vegetables. So, we have seen in U.P., if you look at the prices paid last year an average of Rs. 240 per quintal, okay. Rs. 240 per quintal makes UP go up from 51 lakh plus tonnes or to 59 lakh tonnes, 16%, that is it. With so many mouths to feed in India, I don't think now you will have a runaway production runup. Maharashtra is at its peak. Maharashtra will find very difficult to get labor, to get transport and you know.

Segraj Baria: Okay, that means the only way is for yield to increase?

Pramod Patwari: You are right, the yield has to be increased.

Vivek Saraogi: But even having said that, Maharashtra is finding very difficult to increase. See, if you understand cane, if you see how it works. Maharashtra is crushing till right now. Any farmer who has got into the month of May, it is disincentive to him. Now, if he is up to May and if you look at one individual farmer, you have gone up to May, see again plants came. Now, he goes up to May-June. He just stops planting that extra cane.

Kishor Shah: Last 3 years to 4 years, the sugarcane price in Uttar Pradesh has gone up from Rs. 105 per quintal to Rs. 205 per quintal, but the crop has not doubled.

Vivek Saraogi: Yeah, that is a very interesting data Kishor is giving. In 2006 - 2007, U.P. made over 80 lakh tonnes at the price of Rs. 125 per quintal. At Rs. 205 per quintal, you are making 59 lakh tonnes. There are big changes going on in land allotment in the country I think.



Segraj Baria: Sir, lastly, I believe this Rs. 126-crore investment would be in liquid fund or something like that?

Pramod Patwari: It goes into liquid investment.

Segraj Baria: Okay, I am done. Thanks.

Moderator: Thank you very much sir. At this moment, there are no further questions from the participants. I would like to handover the floor back to management for final remarks.

Vivek Saraogi: Thank you everyone and thank you for being with us and if there are any other queries, we are always there.

Pramod Patwari: Thank you very much.

Kishor Shah: Thank you.

- ENDS -

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