

“EID Parry Q1 FY2010-2011 Results Conference Call”

July 28, 2011

Kashyap Pujara: Good afternoon everyone. Thank you for standing by and it is a pleasure to have with us the management of EID Parry. The management side is represented by Mr. Ravindra Singhvi and Mr. Gopalakrishnan. I would like to hand over the conference first to Mr. Ravindra Singhvi. Over to you sir.

Ravindra Singhvi: Thank you Mr. Pujara. Good afternoon everybody. Thank you very much for joining us today. I would like to quickly take you through some highlights of the first quarter. The main crushing season for sugar typically ends sometime during the first quarter. Considering the availability of cane we have extended the season this year. We have managed to add an average of about 45 working days as compared to the number of operating days for Q1 last year. Consequently the cane that we have crushed in this quarter, which is almost 13 lakh metric tonnes, is more than double of what we managed during the same period last year. As a result our total sugar production was about 1.15 lakh metric tonnes is also up by around 45%. Consequently the sales are up by more than 50% compared to the same period last year. Our distillery sales have gone up by about 80% as compared to Q1 of last year and Cogen operations is also up by around 65%. However, in spite of good performance internally, the external environment, particularly on the sugar price front has not been up to the expectation. On the one hand, cane prices have gone up by about 13.75% year-on-year whereas average realization has dropped by 3.25%. We have, however, benefited from the limited export than we were allowed. We expect to carry this momentum into this quarter and expect our productivity to continue to rise. Our acquisitions viz., Parrys Sugar Industries Limited and Sadashiva Sugars have also performed well in terms of sales. Overall in the first quarter, we have been able to get the operational parameters improved compared to the same quarter of last year. Our Bio-pesticides and Nutra division have improved on the topline and bottomline performance during this Q1.

Ruchi Vora: It would be very helpful if you could share the sugarcane crushed by Parrys Sugar Industries during current quarter. Also, sugar production , distillery production , power production and the exports and the price realization for the quarter

Ravindra Singhvi: Parrys Sugar crushed about 185000 tonnes of cane during the quarter and produced about 20000 tonnes of sugar. In terms of distillery, the production was about 50 Lac Litres. Power production and exports are 240 and 140 Lac Units respectively. Average sales realization for the quarter is about Rs 25100 per MT.

H.R. Gala: Can you give us the total sugar which has been sold in this quarter on standalone basis and consolidated basis?

Ravindra Singhvi: Standalone basis we sold 1.11 lakh tonnes of sugar and on a consolidated basis we sold 1.64 lakh tonnes .

- H.R. Gala:** How does it compare with the corresponding quarter of last year sir?
- Ravindra Singhvi:** 164000 MT compare to 94000 MT of last year same quarter consolidated and standalone was 73200 MT.
- H.R. Gala:** Going ahead do we expect losses in the sugar division to be wiped out?
- Ravindra Singhvi:** We feel that the situation should improve only because going forward the festival season is coming and in next three months there are no crushing in most part of India except Tamil Nadu so sugar availability will reduce and coupled with the festival and expected announcement of additional exports, we feel that sugar price would stabilize or rise little more.
- H.R. Gala:** What is the current realization, which we had, in the first quarter sir?
- Ravindra Singhvi:** Realization in current quarter was Rs.26350 and presently we are selling at Rs.27000.
- H.R. Gala:** You expect it to remain at this level or slightly improve?
- Ravindra Singhvi:** It may improve.
- H.R. Gala:** What was the average cost of cane that we procured in Q1?
- Ravindra Singhvi:** The cost of cane remains the same as the prior quarter Rs 1900 / MT, the base SAP; the overall cost is about Rs 2130/MT including freight, purchase tax, etc.
- H.R. Gala:** Going ahead also it will remain at the same level?
- Ravindra Singhvi:** Up to September, it will remain the same, but once the sugar year starts from October normally the sugarcane price changes, we do not know what the new price is yet.
- H.R. Gala:** How price differentiation works between Tamil Nadu, Karnataka and Andhra?
- Ravindra Singhvi:** Tamil Nadu is normally having higher price by Rs 0.75 / kg to Rs.1.5/kg from Karnataka, mainly because of the freight component.
- H.R. Gala:** How much is the total consolidated debt in EID excluding Coromandel. On the sugar business how much is the total consolidated debt in our book?
- Gopalakrishnan :** Excluding the working capital which is driven by sugar stock; long term loans will be roughly about Rs 820 Crores other than Coromandel consolidated EID.
- H.R. Gala:** How much of working capital?

- Gopalakrishnan :** Working capital will be about 600 Crores.
- H.R. Gala:** That means that total borrowing has not gone up substantially. If I see on March 31, 2011 position I think it was roughly around 1600 Crores total debt?
- Gopalakrishnan:** The stock levels are more or less the same as compared to March 31, 2011 for the standalone and there is a marginal decrease in term loans of standalone
- H.R. Gala:** So going ahead you feel that this year will be much better than last year in terms of your topline and bottomline?
- Ravindra Singhvi:** This year will be definitely better.
- Varun Guntupalli:** My first question is with regard to the refinery operations. If you can give us some operational details on the refinery front sir?
- Ravindra Singhvi:** Refinery is based on the gas . The total capacity of the refinery is 2000 tonnes per day crushing and 35 megawatt power generation. Because of drop in the Reliance gas availability we are not able to work the refinery at the full capacity and we are working somewhere around 30-35% level. We have seen that for long term the gas availability will be a challenge, so we are now working on an alternate arrangement for boiler, using furnace oil and coalWe expect that these facilities will be in place by the end of this year and from the fourth quarter of this year we will see that capacity utilization improved in refinery. So as of now because of partial working on the refinery, it is not working at optimal level and we are incurring losses, so this situation will get corrected from the fourth quarter onwards.
- Varun Guntupalli:** For this quarter what is the profitability for the refinery sir?
- Ravindra Singhvi:** You can imagine that at 35% working, there would not be any profitability.
- Varun Guntupalli:** From the beginning we have been using gas, we have never been using naphtha or furnace oil until now sir?
- Ravindra Singhvi:** So far we have not been using any other fuel
- Varun Guntupalli:** But at what price are we getting gas from Reliance sir?
- Ravindra Singhvi:** \$ 5.01 per mmbtu
- Varun Guntupalli:** But it is like the quantity, which is not available, because of which we would be going to furnace oil?

- Ravindra Singhvi:** Quantity is partially available that is why we are not able to run at full capacity.
- Varun Guntupalli:** If we are operating on gas, what white premium would be able to breakeven sir?
- Ravindra Singhvi:** As per present calculation we should be able to make profit at about \$80 dollars of white premium.
- Varun Guntupalli:** If we move to furnace oil coal I guess would be slightly higher, it should be?
- Ravindra Singhvi:** May be about \$90-\$95, depends upon furnace oil price. As it keeps changing very fast, so at this price may be \$ 95 or so.
- Varun Guntupalli:** So it is likely by Q4 of this year you are expecting the refinery to be operating at upwards of 75%-80% capacity utilization?
- Ravindra Singhvi:** Gradually it will be ramped up, it will start ramping up from fourth quarter, may be the results will look improved in the next year itself.
- Varun Guntupalli:** If you can give some operational details for the other subsidiaries as well sir, Sadashiva Sugars, Parry Sugars in terms of crushing distillery and Cogen operations ?
- Gopalakrishnan:** Sadashiva did not crush much because in fact they crushed only about 39500 MT and they produced about 4600 tonnes of sugar.
- They sold about 10000 tonnes of sugar and they do not have distillery. In terms of Cogen it generated about 71 lakh units.
- Varun Guntupalli:** With regard to the Parrys Sugar operation?
- Gopalakrishnan:** In case of Parrys Sugar they crushed about 1.85 lakh tonnes and as I said they produced about 20000 tonnes of sugar.
- Varun Guntupalli:** With regard to the distillery and Cogen operation?
- Gopalakrishnan:** Distillery they produced about 50 lakh liters and Cogen they generated about 240 lakh units.
- Varun Guntupalli:** How is the pricing for this power right now sir compared to the earlier quarter?
- Ravindra Singhvi:** It is more or less the same because they are part of PPA
- Varun Guntupalli:** Other states also we are operating based on PPA's only right?

- Ravindra Singhvi:** In Tamil Nadu it is based on PPA.
- Bhavik Chheda:** I missed out on the total Cogen and distillery figure on consolidated basis what was the volume?
- Gopalakrishnan:** Cogen the unit exported is 12 Crore units on a consolidated basis and Distillery sales are 154 lakh liters.
- Bhavik Chheda:** What was the Cogen average price and distillery average realization?
- Gopalakrishnan :** The average price for Cogen in Tamil Nadu is Rs 3.9 per unit. In the case of Karnataka it is about 3.45 and Distillery it is about Rs 29.2 per litre
- Bhavik Chheda:** Sugar sales volume what you mentioned can you give us the levy volumes also in the sales volume?
- Ravindra Singhvi:** Levy was about 9500 MT on a consolidated basis.
- Bhavik Chheda:** What was the inventory figure if you can mention as on June 30, if you can share molasses, bagasse and distillery inventory also?
- Ravindra Singhvi:** Bagasse just goes into the production on a daily basis. In the case of sugar, we have about 45000 tonnes.
- Ravindra Singhvi:** Distillery it is almost at the same level as March level. Because whatever has been produced has been sold.
- Avinash Agarwal:** With an increase in cane price and fall in realization now, what explain the better performance in the sugar segment sir?
- Ravindra Singhvi :** The sugar segment has performed better mainly on account of the operational performance. The volumes are up by 100% and because of which the overall cost has come down. Even though the cane price has increased and the sugar realization decreased, because of 200% increase the overall operational performance and partly by higher volume of sugar , Cogen and distillery sales, the overall performance has improved.
- Avinash Agarwal:** So this quarter we had run the plant for about 45 days, extra?
- Ravindra Singhvi:** Yes. Over and above the last year.
- Avinash Agarwal:** Is Q2 continuing same production ?
- Ravindra Singhvi:** All our factories are running as of now.

- Avinash Agarwal:** Normally when do we shut them down?
- Ravindra Singhvi:** Now we intend to shut down somewhere in the month of October.
- Avinash Agarwal:** The next season would start when sir?
- Ravindra Singhvi:** Normally it starts in December in Tamil Nadu.
- Avinash Agarwal:** When does the government normally announce the SAP in Tamil Nadu?
- Ravindra Singhvi:** Normally SAP is announced around September end to October beginning.
- Ruchi Vora:** What is our expectation of the amount of sugar which will be crushed for the full year and also could you give some details on the distillery production scale up and on the Cogen side?
- Ravindra Singhvi:** Crushing levels would be about 25-35% higher than the last year level and so will be sugar production and subsequent to the increase in crushing level the Cogen will also increase as well the distillery operation.
- Ruchi Vora:** Sir could you help me with the operating cost in each of these segments which is your sugar, distillery and power for the quarter?
- Ravindra Singhvi:** Sugar conversion cost typically somewhere between Rs 3.5-4 per kg and the conversion of distillery, molasses into alcohol it is somewhere around Rs.7-8 and regarding Cogen , , the raw material is free, so it cost say about Rs.1 towards the conversion cost
- Avinash Gupta:** There is some talk of decontrol, could you throw some light on it, actually what is happening ,what is your expectations and what could be the continued ways of decontrol that will come through that is one and two I have been told that this year we have used coal for cogeneration
- Gopalakrishnan:** As far as decontrol is concerned it is very difficult to say when decontrol can happen because once it is in hand then only it can be believed . Although through the information from the media we find that talks are going on and some representations they have also been by Indian sugar mills association as well as CII sugar division. We are getting some positive signals from the government, but till it is decided we cannot say anything about the sale. You had asked whether we used coal during the first quarter, the answer is no. Last year, first quarter we used coal, this year there is no usage of coal.
- Avinash Gupta:** So you will use bagasse for this quarter even during the December season?
- Ravindra Singhvi:** The entire generation is planned out of bagasse.

Avinash Gupta: Are you getting REC whatever we were selling power you were selling 3.40 something like that what is the price?

Ravindra Singhvi: In Tamil Nadu, it is about Rs 3.90 per unit

Avinash Gupta: Does it say that you have to sell REC to the state government?

Ravindra Singhvi: REC policy is little hazy. We are discussing with the government as of now the REC is not allowed for the companies who have entered into an agreement with the government for the long term power sale. We are discussing with TNERC

Amit Rane: I just want to know outlook on your non sugar segment, the Bio-pesticides and Nutraceuticals?

Ravindra Singhvi: In the case of Bio, we have been growing on a significant basis compared to last year and we think that by the end of the year we should at least grow by 30%-40% and so is the case with Nutraceuticals we have launched the OTC segment the couple of products that there again the growth has been satisfactory in the first quarter. Organic Spirulina growth has been very significant in the first quarter and we also expect that the overall growth in Nutra will be significant at the end of the year.

Amit Rane: Sir in Nutraceuticals how is the breakup of domestic and exports?

Ravindra Singhvi: Domestic will be about 10% and export will be about 90%.

Amit Rane: Is it possible to share your EBITDA margin for this Nutraceuticals?

Gopalakrishnan: In Nutraceuticals the contribution is about 40-50%.

Sachin Trivedi: I have question regarding the refinery, you said that you doing the steam boiler for furnace oil what is likely Capex on this thing?

Ravindra Singhvi: The Capex will not be significant may be about 6-7 Crores.

Sachin Trivedi: You said that \$80 is the white premium that you need to for the breakeven. This is assuming what level of capacity utilization?

Ravindra Singhvi: Assuming about 80% of the capacity utilization at PBIT level

Bhavik Chheda: Just to know your yield was low at 7.8% on consolidated basis. Even on the standalone basis it seems to be low at 8.9, any specific reason for it?

Gopalakrishnan: Just to clarify the recovery on a standalone basis is 8.71 and recovery on a consolidated basis is 9.05 compared to last year of 8.67.

Bhavik Chheda: Sir on the Cogen figure you give a consolidated volume, you sold 12 Crore unit, but you are saying Cogen volumes were of 65% on a Y-o-Y basis I believe last year volumes were around 12.6 Crore unit so is there is a mismatch there?

Gopalakrishnan: We are talking from the profitability point of view, they have gone up by 65%, because last year most of the production was using coal. Coal gives a margin of less than 50 paisa

Bhavik Chheda: When you are saying distillery of 80% Y-o-Y and Cogen of 65% you are mentioning the profitability of the distillery and the profitability of the Cogen. It is not based on the sales value or the sales volume figure?

Gopalakrishnan: In the case of distillery the sales, production and profitability is about 85%.

Sunny Agarwal: Sir it will be helpful if you can throw some light on what is happening in international market like production in Brazil, Thailand and what is the outlook on international sugar price?

Ravindra Singhvi: The international numbers have come down a little bit because Brazil has reported that their stock will be less by about 6.4% over the last announced level. First time Brazil is showing a decline in the production of sugarcane in last 10 years. The yield has declined so the availability of sugar has further reduced, although Thailand have reported much improved numbers 9.5 million tonnes that has compensated partially for the shortfall by the Brazil, so therefore the availability overall in international market have reduced because of which the prices in international market have gone up significantly high. In last two months' time the prices were about 620 to 630 and today the prices are quoting at somewhere 770-780. So the prices are rising because of the fear of less availability of sugar in the market.

Falguni Datta: Could just tell me the cost of producing sugar Cogen and distillery at the PBIT level that is excluding interest, but including depreciation for the sugar season ending September 2011 in season wise?

Gopalakrishnan: You are talking about the entire season is that?

Falguni Datta: Because I talk financial year, you would might not be able to say just an estimate as a the other half will fall in the coming season, so sir for the season already which we are undergoing in that the sugar Cogen and distillery cost including depreciation?

Gopalakrishnan: In case of sugar since Rs.1900 is the SAP, the average cost of production including the fixed cost will be about Rs.26500 per MT and in case of Cogen since it is coming out of Bagasse, the average cost of production for Cogen is about Rs.1.

- Falguni Datta:** And distillery cost?
- Gopalakrishnan:** Distillery including see it depends on the molasses cost, so I think you should just give it as cost of conversion, which will be about Rs.10. Including cost of molasses, will be in the region of Rs 25 per Litre
- Shishir Goenka:** Sir I would like to know the quantity allotted under OGL export for EID Parry, Sadashiva and GMR separately?
- Ravindra Singhvi:** EID Parry standalone we have been allotted two tranches, one is 6400 MT and other one was 6700 MT. So it is a total of 13100 MT and in case of Sadashiva and PSIL, the total quantity available was about 1700 MT in both the tranches to almost about 3400 MT taking together of 17000 tonnes.
- Shishir Goenka:** Out of this how much have we exported, how much have we exhausted?
- Ravindra Singhvi:** We have exhausted most of the quantity , about 5000 tonne is remaining, we will export it in the month of August.
- Shishir Goenka:** Okay you are talking about standalone?
- Ravindra Singhvi:** PSIL and Sadashiva we have already exported.
- Shishir Goenka:** Just as we are continuing crushing till October would like to know how much of cane are we expecting to crush?
- Ravindra Singhvi:** At about Q1 levels
- Kashyap Pujara:** If you look at the recovery in the first quarter it is approximately 8.7, any particular reason why the recovery at this point and are there any possibilities of improving the recovery going forward?
- Ravindra Singhvi:** Recovery is related to the crushing also. If we crush in the month of April, the recovery will somewhere be around 9.5% and as the summer season sets in the recovery comes down. In June, the recovery was very low and up to May the recovery was much higher to average 9%. In the month of June it further came down. It was worthwhile to crush at this level and generate power and produce more alcohol.
- Kashyap Pujara:** So going forward do we see the recovery improving?
- Ravindra Singhvi:** We expect in the month of August and September recovery should improve.

- Kashyap Pujara:** So overall basically we can yet look at a recovery of somewhere around 9.2, 9.4% for the full year?
- Ravindra Singhvi:** Around these levels
- Kashyap Pujara:** Which would imply at one of the quarter we might even go at 10% average?
- Ravindra Singhvi:** Quite possible
- Kashyap Pujara:** One another question was related to the Bio and Nutra division, overall if you look at on a consolidated basis the topline growth is encouraging, so that is something which is on smoothly but margins to that extent are very lumpy. Even if you look at on a standalone basis the margins over the last quarter, if you look at QoQ have come off slightly. So when do we see the margins coming on a consistent basis?
- Gopalakrishnan:** Bio and Nutra business has been growing year on year. The Growth can be observed on an annual basis and this year as well, we expect good growth on year on year basis.
- Manoj Bahety:** Just wanted to understand our strategy on Parrys Sugar and how things are moving like in recent quarter. Further, Parrys Sugar has reported a loss of 27 Crores mainly because of the higher interest cost so any update on reduction of debt level, last debt number which I remember is 680 Crores there?
- Ravindra Singhvi:** The Parry Sugar factories are based at Karnataka. In North Karnataka where the season is short basically it is about five months season. So five-month season high recovery period the strategy is to crush more and more in this period and get the benefit of high recovery. So when obviously the benefit is there and the company is turning around. If you compare the first quarter number with the previous last year first quarter we will find that performance has slightly improved and we expect that with some Capex and other debottlenecking equipments we will improve the performance significantly. So as far as interest cost is concerned if we look at the debt level their debt level 620 is including working capital so right now the interest costs are high, but we are working on a restructuring scheme and we should soon see the extent of interest cost on a proportionate basis coming down gradually.
- Manoj Bahety:** I was seeing your standalone numbers vis-à-vis consolidated numbers and if I exclude the Coromandel and getting somewhere around 45 Crores of total of sales of your subsidiary so out of 45 Crores I can take 27 Crores on account, in fact if I exclude the minority interest, so around 22 Crores on account of Parry Sugar, so will it be fair to assume that the balance is on account of the refinery portion?
- Gopalakrishnan:** Largely, but you should also factor in the consideration of other subsidiaries like Valensa, , Phyto remedies, Sadashiva Sugars, etc.

- Avinash Agarwal:** When we look at fiscal year 2012 what could be the total sugar that we can crush and all including all the subsidiaries and the recovery?
- Ravindra Singhvi:** Total sugar we can expect somewhere around 60 lakh tonnes of crushing at about 10%
- Avinash Gupta:** Are the profits for distillery and cogen will be above 60% to 80%?
- Gopalakrishnan:** Depends on the sugar prices and since the sugar prices are just at the breakeven level compared to the sugar cost, this time almost all the profit came from Cogeneration and distillery, so in terms of topline though the Cogen and distillery will be about 20-25% of the turnover, but in terms of bottomline it is representing a larger portion.
- Avinash Gupta:** Distillery we still assume same kind of margin to continue, if they increase the price units it could be higher and vice versa is that the position?
- Gopalakrishnan:** In the case of Cogen and distillery the margins will be more or less the same, but in the case of sugar it depends on the end price.
- H.R. Gala:** I wanted to understand clearly that our interest expense on standalone basis has gone up, so is it purely because of the higher interest rate because our debt has come down as you said?
- Gopalakrishnan:**
- Gopalakrishnan:** One thing is because of the working capital and the interest rate high, other thing is also because of the investment what we made in the subsidiary.
- H.R. Gala:** What is the average cost of debt as of now and how much do we expect going ahead?
- Gopalakrishnan:** Right now because of the sugar development fund our overall long term debt is less than 8% and we expect that to be the same unless we borrow more funds at higher rate. Working capital, the average cost of borrowing ranges between 8.5 to 9.25.
- Punit Chokhani:** In terms of the total power that you generated in the standalone entity, just EID in Tamil Nadu and how much is exported?
- Gopalakrishnan:** We generated about 15 Crore units and exported about 10 Crore units.