



EID Parry Q1-FY2013/14 Earnings Conference Call

July 31, 2013



**MANAGEMENT: MR. SAJIV MENON – HEAD, BIOPRODUCTS &
NUTRACEUTICALS BUSINESS
MR. P. GOPALAKRISHNAN – VP, FINANCE,**
MODERATOR: MR. KASHYAP PUJARA – ANALYST, AXIS CAPITAL

Moderator Ladies and gentlemen good day and welcome to the EID Parry Q1 FY14 Earnings Conference Call of hosted by Axis Capital. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara. Thank you and over to you Mr. Kashyap.

Kashyap Pujara Good evening everybody, thank you for standing by and it is pleasure to have with us the management of EID Parry. The management is represented by Mr. Gopalakrishnan who is the VP – Finance and Mr. Sajiv Menon – Head of Bio-Products and the Nutraceutical Business. I will hand over the floor to them, thank you so much.

P. Gopalakrishnan Good evening everyone, I will briefly start the discussion before taking your questions. Just to briefly talk about what happened in the 1st Quarter, the standalone turnover of EID Parry for the quarter was Rs. 403 crores corresponding previous year Rs. 576 crores with a net loss after tax of Rs. 72.31 crores corresponding quarter of previous year was the profit at Rs. 22.47 crores. I have to quickly add that to whatever numbers I'm saying for this quarter that is April to June 2013 includes Haliyal and Sankili, the merged units of PSIL as well whereas the last year same quarter will not include the corresponding numbers of Haliyal and Sankili. The consolidated turnover for the quarter was Rs. 2342 crores compared to Rs. 2666 crores and the loss after tax before minority interest stood at Rs. 103 crores corresponding to the previous year profits of Rs. 106 crores. In the case of sugar division the company crushed about six lakh ton of sugar compared to close to 18 lakh tons of sugar same period last year including Haliyal and Sankili. The recovery was at about 8.66% compared to a 9.2% last year same quarter. The consolidated sugar operation reported a loss of Rs. 64 crores corresponding to a profit of Rs. 39.54 crores last year same quarter. The cane availability was affected during the quarter due to large-scale drought conditions prevailed in at least 2 to 3 factories in the operable area in Tamil Nadu. The overall recovery and yield also reduced due to lower water availability and drought conditions which were the prime reasons for the lower crushing of cane as well as the lower recovery.

Coming to the bio products comprising the biopesticides and Nutraceutical registered PBIT of Rs. 1.58 crores compared to loss corresponding quarter last year of Rs. 0.75 crores both the division Bio and Nutra are doing well and they continue to do well during the rest of the quarter. The sugar yields are under some strain because of the availability of sugar cane as planned as well as the sugar prices which are under stress. So that is from me and I thank again for the participants and we are now ready to take questions.

Moderator Thank you very much. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Achal Lohade from JM Financials. Please go ahead.

- Achal Lohade** Few queries, first on the outlook, what is the scenario right now, have you seen because of the very recent rainfall, any increase in the cane acreage, what is the guidance we are looking at actually FY14, what is the cane crushing number we are targeting as the company?
- P. Gopalakrishnan** In the case of Andhra Pradesh and Karnataka the rainfall has been reasonably good compared to last year, the season will start post October we do not envisage any reduction in cane availability this year compared to last year in fact we should see some additional cane being crushed towards the end of March. With respect to Tamil Nadu three of the factories in Tamil Nadu - Nellikuppam, Pondicherry and Pudukottai, we should expect the cane quantity equal to last year we do not expect any drop in the cane however the crushing will be slightly lower than last year because last year we crushed certain amount of diverted cane which will not be available this year. Two of the factories are at a stress which are exactly on the rain fed areas where there is an absence of rain and only now those two factories have started getting water from Karnataka reservoirs and therefore the planting should commence from August, and therefore the cane availability should be good from next Jul, so till say April or May, one factory there is no availability of cane at least till November we should start having cane from January, the Main season and whereas in one other factory there will be lesser cane availability and it should be about 30% to 35% lower than the last year.
- Achal Lohade** So overall for the company what is the guidance in terms of the increase or decline?
- P. Gopalakrishnan** Last year including Haliyal and Sankili we crushed about 65 lakh tons of cane, this year we're expecting that it should be about 52 to 55 Lakh tons that is roughly the 20% drop which I was talking in the last meeting.
- Achal Lohade** So we are very much maintaining that earlier expectation actually?
- P. Gopalakrishnan** There will be some further reduction in Tamil Nadu which could get compensated in Karnataka and Andhra operations.
- Achal Lohade** Can you help us out on the sugar volumes and the realization numbers for the factories or for the company as a whole?
- P. Gopalakrishnan** We crushed six lakh tons this year compared to close to 18 lakh tons last year same quarter, recovery is 8.66 versus 9.21 therefore the production is roughly 53,600 this year compared to 1.64 lakh tons last year.
- Achal Lohade** In terms of realization?
- P. Gopalakrishnan** The free sugar realization was 30,900 compared to about 28,100 last year. Last year, 1st quarter, we exported close to a lakh tons of raw sugar and therefore to that extent the realization would have been lower because of raw sugar.
- Achal Lohade** What is the sales volume in the quarter?

- P. Gopalakrishnan** Sales volume this quarter was 1.04 lakh tons, last year's same quarter we sold 2.05 lakh tons.
- Achal Lohade** And is 2.05 includes one lakh tons of raw sugar, is that correct?
- P. Gopalakrishnan** Correct, exported.
- Achal Lohade** In terms of distillery and Co-gen?
- P. Gopalakrishnan** Co-gen is in directly in relation to the cane crushed so therefore the export of Co-gen power was for 440 lakh units this year compared to close 13 crores units last year.
- Achal Lohade** And distillery?
- P. Gopalakrishnan** Distillery sales 130 lakh liters compared to 150 lakh liters.
- Achal Lohade** And the realization?
- P. Gopalakrishnan** Realization this time was better at 35 compared to about 27 last year.
- Achal Lohade** And how are the current realization are they still sustaining at 35 because we tend to hear that in Maharashtra or in North the realization is far lower about 29 or 30 than what is the status on the ethanol front, how much have we contracted for?
- P. Gopalakrishnan** It depends on what in distillery you are referring to as the price. The RS Price is roughly about 30 and ENA prices is roughly about 40 to 41, so the weighted average is what is 35.
- Achal Lohade** And what is the mix for us, we are more focused on the ENA part of it?
- P. Gopalakrishnan** Yes.
- Achal Lohade** And what would be the proportion will it be 60:40 or something?
- P. Gopalakrishnan** Yeah proportion is 2/3:1/3 roughly.
- Achal Lohade** I was asking about the ethanol?
- P. Gopalakrishnan** Ethanol we have not got any specific orders from the oil marketing companies however others have got an order and the dispatches have started ENA prices have been consistently higher compared to last year.
- Moderator** Next question is from the line of Achal Lohade from JM Financials. Please go ahead.
- Achal Lohade** In terms of the Cane prize can you throw some light on what has been the cane price for the quarter and how'd you see it moving forward?

- P. Gopalakrishnan** The Cane prize is the same because the cane price gets revised only in October so there is no change from the prior quarter and it stands the same. We should expect at change only from October 1st, 2013 which will be a subject matter of announcement closer to that date or post that date.
- Achal Lohade** You see we have been reading that Karnataka is passing some bill wherein they will be forming a committee of linking the cane price to the sugar price, so, what is your opinion or perspective on this linkage and you think that is possible, that is likely and will it do you also see a possibility of that being applied in Tamil Nadu as well as other states?
- P. Gopalakrishnan** Karnataka has started the initiative by forming a committee but more will depend on the percentage that is going to agreed upon as a sharing so we'll have to wait for the outcome of these committees and the final recommendations and we are not too sure whether it will be followed by other states.
- Achal Lohade** Just the last question actually on the debt part of it, what is the debt at this point in time as of June 2013, first stand-alone company?
- P. Gopalakrishnan** It is in line with March 2013 levels, we have not borrowed much during the quarter because first quarter normally the borrowings are subdued and we have not borrowed much, in fact there is depletion in working capital to the extent of sales during the quarter.
- Achal Lohade** How about Sadashiva Sugars has that been, what is the status on that merger?
- P. Gopalakrishnan** The board has recommended we are waiting for the final approval from the stock exchange, it will take about 3 to 4 months before we get all the approvals in place but the recommended effective date is 1st April 2013.
- Moderator** Next question is from the line of Manish Goyal from Enam. Please go ahead.
- Manish Goyal** The volume numbers which you gave were for standalone sugar six lakh tons?
- P. Gopalakrishnan** That is correct including Haliyal and Sankili.
- Manish Goyal** So can we get on a consolidated basis what was crushing and production numbers?
- P. Gopalakrishnan** There will not be any change because there is absolutely no production in Sadashiva Sugar or Ramdurg actually. So there are a few tons, 1000 tons sold but in terms of production there are no changes, in terms of cane crushed recovery etc.
- Manish Goyal** And on the sale side, sugar sold?
- P. Gopalakrishnan** This year we sold 107,000 compared to 2,20,000 last year, I'm saying including all units.

- Manish Goyal** On a consolidated basis?
- P. Gopalakrishnan** Correct.
- Manish Goyal** For FY14 on a consolidated basis what quantum of crushing we expect?
- P. Gopalakrishnan** As I was telling in the earlier conversation meeting we should be able to do about 52 lakh tons.
- Manish Goyal** This 52 lakh tons includes Sadashiv and other units?
- P. Gopalakrishnan** I am not including that, just EID including Haliyal and Sankili.
- Moderator** Next question is from the line of Umesh Patil from KR Choksey. Please go ahead.
- Umesh Patil** Just wanted to know how much interest outgo we are expecting for FY14 and what is the average cost of debt?
- P. Gopalakrishnan** Long-term debt we are not borrowing much in this year therefore the rate of interest on the borrowings stood as of March 31st continues which has about Rs. 130 crores of sugar development fund at 4% to 6% so the average cost of long-term borrowing is about 8.8% to 9%. In the case of short-term borrowing which is largely working capital driven up to this point of time we have an average rate of about 8.8% to 9%.
- Umesh Patil** These numbers are on consolidated basis?
- P. Gopalakrishnan** These are standalone including Haliyal, Sankili, you can add Sadashiva and Ramdurg also because significant amount of funding is routed through EID Parry.
- Umesh Patil** So total on consolidated basis, is it safe to assume it is around 9% to 10% including PSIL and SSL both?
- P. Gopalakrishnan** Yeah, excluding Silk Road it will be about 9.5% to 10%.
- Umesh Patil** How much interest outgo we are expecting, if I look at the income statement for the quarter our interest outgo on consolidated basis was Rs. 129 crores against Rs. 99 crores, so what is your view on it?
- P. Gopalakrishnan** What we have to see is standalone because consolidated numbers includes Coromandel which is significantly higher level of operation. If we take the standalone where we have shown an interest of about Rs. 34 crores net interest expense, less interest income, I think, going by that we should be able to beat the Rs. 100 crores mark and be a slightly lower than that for the entire year.
- Umesh Patil** So it would be around Rs. 120 crores on net interest expense?

- P. Gopalakrishnan** No, it will be lower than that because we believe that working capital levels will continue to come down as we go along.
- Umesh Patil** What is your view on sugar refinery on that Silkroad, what is the status of that coal-based boiler insulation plant as of now?
- P. Gopalakrishnan** It is progressing very well and we continue to maintain that erection would be completed in 4th Quarter.
- Umesh Patil** What is the CAPEX plan for FY14?
- P. Gopalakrishnan** FY14 we are doing only the normal CAPEX, we are not planning any major expansions or major project, other than in Silkroad.
- Moderator** The next question is from the line of Stuti Chawla from Cogenesis. Please go ahead.
- Stuti Chawla** Just wanted to check what is happening on the refinery again, you aim to complete it by the end of this financial year so have you started looking at imports if the sugar prices are depressed right now and they are likely to go up as the year progresses?
- P. Gopalakrishnan** I think it is bit too early, so possibly end of this calendar year, first month of the next year say January, is the time we should actually start looking at.
- Moderator** Next question is from the line of Satish Mishra from HDFC Securities. Please go ahead.
- Satish Mishra** First question is related to your recovery, if I see prior to last two years recovery use to be more than 10% but from last two years it is in the range of 9.1% to 9.2%, so probably last year could, rain could be a reason, so how do you see this going forward?
- P. Gopalakrishnan** I think, it is a mixture of two factors, one is it depends on which quarter you are looking if you are looking at. The recovery in the 4th Quarter will always be higher than 10%, the average for the year in Tamil Nadu is always close to 9% and last year it was slightly higher because we did raw sugar for a significant part of the year and in the case of raw sugar we get about... So in the case of raw sugar it will be slightly higher compared to the white sugar production.
- Satish Mishra** For FY14 like it will be in the same 9.1%-9.2% range or probably because of good rain progress we can see some improvement?
- P. Gopalakrishnan** We hope to see some increase, we will have to wait and see.
- Satish Mishra** Second question is related to sugar prices like normally we used to see that from July onwards because of the beginning of Festival season Ramzan and the price used to increase, so what is the current outlook on the domestic sugar prices?

- P. Gopalakrishnan** Last year what you said actually happened because significant part of sugar went out of the country and the country itself was running low on sugar and therefore the prices started picking up between July to September-October. This year we have not seen that increase happening in July but we are hopeful that in September-October it should start going up considering the depletion in the stock level in the next two months.
- Satish Mishra** So our current realization is in the same range Rs.31?
- Gopalakrishnan** Yeah, in fact it is slightly lower on that Rs.30,500 per MT.
- Satish Mishra** How much inventory do we have?
- P. Gopalakrishnan** We have about 1.7 lakhs of inventory right now.
- Moderator** Next question is from the line of Rijul Gandhi from Centrum Wealth Market Management. Please go ahead.
- Rijul Gandhi** We just wanted to know, what do you see going forward in Nutraceutical business going forward, in Q1 it is posted a good number, the bio products business, sorry, posted a loss, I just wanted to know going forward what do you see that growing is it?
- Sajiv Menon** Q1 for this business is a very subdued quarter because it falls between the two monsoons, the south-west monsoons and the north-east monsoons and therefore much of the sales in Q1 is out of exports, as we move forward domestic sales will pick up and we would expect this year to be considerably better than what it was in the previous year since all signs are good on the monsoons front.
- Rijul Gandhi** So you see the export revenues increasing this financial year?
- Sajiv Menon** Yes, we are expecting a considerable increase in exports.
- Rijul Gandhi** From the last annual report it is around 76%, is that level sustainable or an increase in that?
- Sajiv Menon** Because the domestic sales are going to be going up the relative percentage will actually come down but never the less there is going to be substantial growth in exports.
- Moderator** Next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.
- Avinash Agarwal** What is the valuation of this Rs.1.7 lakhs inventory that we have today and at what price we have valued it?
- P. Gopalakrishnan** It is roughly about Rs. 29,500 because now you don't have levy sugar and the entirely free sugar quantity.

- Avinash Agarwal** Are the state governments actually procuring the 10% from the market, are you seeing any tenders coming in?
- P. Gopalakrishnan** They are getting it from the market but from the cooperatives.
- Avinash Agarwal** So they are not floating on tender?
- P. Gopalakrishnan** No, not yet, that is not happened in Tamil Nadu, however, we have seen tenders floated in Andhra Pradesh and we have seen some of the private mills started to supply to the government.
- Avinash Agarwal** Have we tied anything for ethanol program?
- P. Gopalakrishnan** Ethanol we are not specifically tied but we know that a lot of sugar companies in Tamil Nadu have tried up for ethanol, however we have seen because of this ethanol being tied up ENA prices have stayed at reasonably good levels.
- Moderator** The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade** Two questions one on the production for the country as a whole, what is the outlook you have, decline do you see a substantial decline, do you see it remaining steady, I just wanted to get your perspective on that?
- P. Gopalakrishnan** This is for a country as a whole or a state?
- Achal Lohade** Country as a whole as well as state?
- P. Gopalakrishnan** Country there is not expected to be a significant drop and surely ISMA expects the production to be slightly higher in the consumption for a country, so which means that there is planned accretion to the stock rather than a decretion.
- Achal Lohade** And for Tamil Nadu and Karnataka?
- P. Gopalakrishnan** It is a different picture because of the monsoon issues the SISMA actually estimating a 25% to 30% drop in the sugar cane production. What it used to be 2.4 million MT productions last year or so could eventually come to about 1.85 million MT this year and could potentially go down to a 1.45 million MT the next year.
- Achal Lohade** When you say next year 1.45 means, FY15?
- P. Gopalakrishnan** Not FY, sugar year 13-14.
- Achal Lohade** And when we say this 2.4, it is only for Tamil Nadu, you are saying?

- P. Gopalakrishnan** Yeah, I'm talking only about Tamil Nadu.
- Achal Lohade** And how about Karnataka?
- P. Gopalakrishnan** Karnataka is expected to stay flat, of course this year specifically 12-13 there is a reduction but 13-14 could be better because the rains have just now started.
- Achal Lohade** What is the debt, it is the hypothetical question, if we merge this Sadashiva sugar, with this the substantially increasing the debt number for us?
- P. Gopalakrishnan** It will be the same number what Sadashiva is holding today because that will 100% get merged into the EID Parry but we're thinking that there will be some more rationalization of interest cost when we actually merge, which we are not able to do it today. In terms of volume of debt it will be most to about Rs.200 crores.
- Moderator** As there are no further questions with this we conclude the conference call. Thank you for joining us, you may now disconnect your lines.