



## “EID Parry Q3 FY18 Earnings Conference Call”

**February 8, 2018**



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(INDIA) LIMITED  
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**S. Suresh:**

Good afternoon, everyone. Welcome you all for this analyst call and thanks for taking time out on joining this call. I would like to give a brief about the quarter performance and then I will hand it over to our CFO – Mr. Suri, who is going to take you through the details.

Basically, the profitability of the sugar division has been impacted mainly on account of 2 major reasons. One is the one-time settlement of the additional cane price of Rs. 90 crores for the sugar seasons 2013-2014 to 2016-2017 which we are paying to the farmers who had registered with the company and who supplied cane to the company's factories in Tamil Nadu. Second reason being, the subdued sugar prices towards the second half of the quarter.

Just to give a background on the factory front to start with, we were supposed to be starting the Karnataka in October. There has been a delay in the crushing season start for Karnataka. Basically, due to 2 reasons - one is there has been an unseasonal rain in October. Of course, as you all know that with soil moisture been so high, it will not be very easy to harvest and also the recovery will be very low. Hence the season start had to be postponed. Further, there have been lots of discussions and deliberations amongst the various mills in Karnataka towards the cane price payment for the current season. Due to these factors we started our mills in the first week of November. One or two mills started in the second week of November. Hence there has been a delay in the crush and hence the volumes. Of course the good news is that the volumes whatever we have lost will be coming back in the Quarter 4 because the cane availability is there on the field and that we will be crushing during the months of January and February. May be one or two mills may be extending that the crushing into the month of March as well.

As far as Tamil Nadu is concerned from a crushing perspective there has been a week delay in the startup of the Nellikuppam factory otherwise it is going on schedule. To give an idea about the cane prices, in Karnataka we have started up the factory by paying initial price for the cane plus additional harvesting charges. And like in the past seasons the final price will be based on revenue sharing formula which will be calculated towards the end of the sugar season maybe somewhere in the month of June/July. The Karnataka government will fix up and then the mills have to comply with that. From Tamil Nadu stand point, we have firmed up on the prices payable for the cane. It is the FRP plus the transport charges plus there has been additional payment of around Rs. 50 towards the cane development as an incentive because the Tamil Nadu cane volumes has been going down. AP, by and large, is going on a FRP basis. Andhra Pradesh factory had also started as per schedule and it is crushing as per the schedule.

And if you look at the sugar price front, sugar prices has started coming down from November. If you all recollect the prices 2 years back were very low and then it has taken around 1.5 years for the prices to go up from a level of Rs 24-25/Kg to Rs 37-38/Kg. Whereas, what we saw in Q3 of this financial year is the prices fell down from a level of Rs 37 to a level of Rs 29



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in a span of almost around 8 weeks towards the middle or end of October and towards the end of December there has been a severe fall. Predominantly, there was always an expected high production for the country from the sugar season 2017-2018 and the overall prices for the cane price to be paid is also higher. All the mills went ahead and then sold their produce into the market and thereby the entire prices were pull down in the market and the company could not sustain the sale volume what we wanted to sell during the quarter at the targeted price levels. For the ensuing quarter also the prices are expected to be almost at the current levels. From Bio division perspective, the bio pesticides division witnessed a better performance with the higher sales and better margins on account of the improved neem seed availability at a lower price.

So, with this I would request Mr. Suri to take you through the details of the results.

**V. Suri:**

Thank you, Suresh and good afternoon to all of you. I am very happy to be part of this analyst call to share with you some numbers regarding the Q3 and also after our presentation we can have some question answers to clarify the numbers. During the quarter our sales has been down predominantly because of the prices started falling in the second half of November as Mr. Suresh said. So, we were holding the stocks , hoping that the prices will revive but subsequently the prices have actually fallen, and currently it is now stabilized around Rs 29-30/kg. That is what the situation is. So, we have stocks and we will be selling during this quarter and subsequently also.

The PBT for the quarter has been a loss of Rs 82 crores primarily because of Rs 90 crores provision which we had to make for the Tamil Nadu SAP settlement. This payment of SAP settlement is now going on and we hope to finish by this quarter. If you have to do a comparison we have a PBT of about Rs 8 crores excluding Rs 90 Crore shown under extraordinary items compared to corresponding period last year including PSIL is Rs 22 crores. So, there has been a reduction of about Rs 14 crores compared to the corresponding quarter. This has come because of the lower cane crush, Mr. Suresh has already pointed out the lower sales which we did from the second half of the November.

On a cumulative basis, we have reported a loss of about Rs 37 crores compared to the last year it has been significant fall because of cane price settlements which we had to do in Tamil Nadu and in Karnataka. So, now let me give to some operating numbers which will give you an idea of how we performed during the quarter operationally. As far as sugar is concerned we crushed about 12 lakh metric tonnes against last year's corresponding figure of 15 lakhs. But this short fall in cane will be made up in Q4 and actually we have cane of about 30% better in Karnataka than last year. So, we hope to do better than last year by about 30% in Karnataka. In Andhra Pradesh we are in the same level as last year and in Tamil Nadu as you all know because of the drought we are going to crush little less than last year. So, this is how the overall cane crushing will pan out.



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As far as the recovery is concerned, average recovery was about 10% which is a little lower than last year by about 0.2%. Last year similar time we had 10.2%. But this recovery also will be made up because Karnataka is going to crush during the peak period of January/ February which did not happen last year. So, we hope that recovery will be better than last year as far as the overall numbers are concerned. We produced about 1.8 lakh tonnes of sugar including the raw sugar which was processed of about 67,000 MT. So, overall numbers you see that we had actually imported raw sugar under TRQ about 67,000 MT and the entire quantity has been processed and was available for sale. And as far as the sale is concerned we had sold about 75,000 tonnes of sugar against last year's corresponding period of 1.2 Lac MT. As I was telling you earlier the short fall is because of this slowdown in our sales to get the targeted price.

The average selling price for the quarter has been around Rs 37 but this does not reflect the actual picture because the prices today are at around Rs. 32. We carry about 1.6 lakh tonnes in stock which we will have to start liquidating. We are already liquidating in Quarter 4 and would further liquidate subsequently in Q1 of next year. The overall sugar segment revenue was about Rs 290 crores compared to last year's corresponding period of about Rs 387 crores. Now as far as co-gen is concerned, we generated about 10 crores units and corresponding period is about 13 crores because of the lower cane crush. We also exported about 5.3 crores units during this period. The average rate of power has improved because we got into PPA in Karnataka. So, we get better price in Karnataka corresponding to the last year.

So, overall there is an increase of about 80 paisa per unit on an average as far as the co-gen is concerned. Whereas in Tamil Nadu the PPA has got over in November 2017 and subsequently we are operating in IEX now. Karnataka and Andhra Pradesh are in PPA and Tamil Nadu now currently in IEX. As far as distillery is concerned we sold about 190 lakh liters during this period against 183 lakh litres last year on an average price of about Rs. 50. ENA price continues to rule at around 51-52 on an all India basis. Tamil Nadu is slightly better than this. So, distillery has been performing well both in terms of revenue as well as the profits in terms of the operations.

As Mr. Suresh has already said, Bio had a good run during the period. We had a sale of about Rs 42 crores during this quarter which is at 60% increase over the corresponding quarter and PBIT also has increased to about Rs 8 crores from last year's Rs 1 crore. So, it has been a good story because we had actually tied up the neem availability and the price well in advance and we are in control of the entire production, the seed cost and the profitability. And the sales also has been improved because we had exported more than what we actually planned during this quarter. As far as Nutra is concerned the performance by and large remains flat with the topline has been hovering around Rs15 crores for the quarter and it is similar like last year. PBIT also is at break-even level which is not significantly different from what happened in last year. We are working on now to improve the profits by getting a better mix of sales. As far as the Capexis concerned we expanded our capacity in Karnataka and Andhra Pradesh because of



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the better profitability and the availability of cane. So, all the expansion projects in Karnataka in all 3 units and also as well as in Andhra Pradesh happened in time. So, we added about 2,000 metric tonnes per day TPD for the production. Overall for the year we will be spending about Rs 60 crores on Capex on a yearly basis which is much lesser than the depreciation which is at around Rs 110 crores. The interest and the borrowings were continued to be focused. We have reduced on an overall basis the total loans by about Rs 215 crores over the corresponding quarter last year. So, it has been a much focused approach and correspondingly the interest cost also has come down by about Rs 3 crores in this quarter and overall by about Rs 9 crores during the year. So, overall it has been a good story on the interest and we are ensuring that we continue to reduce the overall loans. So, that we are tight on the interest costs. Our expenses control also is in place. We are by and large at the same level as last year.

So, this is the summary of the numbers for the quarter and I leave the floor open now for question answers to our MD and myself. Thank you very much.

**Raj Jaiwardhan:** I have a small question.. The way the sugar prices are heading it is gone almost below your cost of production. So, do you see any government intervention in the near term which can help at least subsidize some of the cost?

**S. Suresh:** I think already government has talked about the import duty increase on 50% to 100%.

**Raj Jaiwardhan:** Yes, but we hardly importing anything, that does that really make a difference?

**S. Suresh:** No, this more of the Pakistani sugar which has got huge subsidy from the Pakistani government and was trying to make inroads into Indian shores. I think that is one area to that extent there are lot of pressures which will go off. I think there is some initiative from the Maharashtra Government in terms of the Maharashtra Cooperatives trying to buy back from the mills close to around 10% to 20% of the produced quantity for the season at determined prices. So, if that is going to happen, I think that has to get approved in the cabinet or so. So if that happens then today what is happening is lot of sugar is coming out from Maharashtra and Karnataka into Tamil Nadu. So, that is also pulling down the Tamil Nadu prices. Typically, if you look at the scenario Tamil Nadu is short in terms of sugar, technically the sugar prices should be rolling high. But with so much of production in Maharashtra and AP lot out of Maharashtra sugar is finding way into Tamil Nadu.

**Raj Jaiwardhan:** We are expecting an excess supply of about 4 million tonnes this year and about 7 million tonnes next year on India level. So, do you expect, can we expect the government to do something to flush out these exports at all?

**S. Suresh:** Yes, I think that is what we are all also representing to the government in terms flushing out the stocks one could be the exports. So, these are the requests which are being made by the mills to the government. We have to wait and see. Definitely they are also monitoring the



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situation. So, may be some actions are expected in these lines in order to ensure that the prices do not go down below the current levels.

**Raj Jaiwardhan:** Do you think the current levels are sustainable at all?

**S. Suresh:** You have to wait and see because it depends on one side we have to have the FRPs to be paid to the farmers. So, there are no cane arrears. So, if you have to generate that much level of money. Then somebody has to keep selling it in the market thereby get back the cash and then pay to the farmers. So, till the season continues I think that will be depressed prices. I do not think we will be able to say this is the bottom unless there are certain measures like Maharashtra Government wherein they hit the bottom by assuring some buy back then that will serve us a support level.

**Raj Jaiwardhan:** You can see sugar prices dropping further as well?

**S. Suresh:** Yes, quite a possibility is there. I think this also should come back as we go into the Q1 because by that time the season would have got completed.

**Sonali Salgaonkar:** Sir, few booking keeping questions you mentioned in you opening remarks that sugar produced in this quarter is 1.8 lakh tonnes. What could be the comparable number in Q3 FY17?

**V. Suri:** Comparable number is 1.5 lakh tonnes. See, increase this due to the raw sugar which we processed.

**Sonali Salgaonkar:** Sir and what would be the comparable number for raw sugar processed in Q3 FY17?

**V. Suri:** Nothing. There was no raw sugar processed during the corresponding quarter last year. But this program came only this year starting from the Quarter one and then subsequently the second TRQ came in September and we have produced this in November.

**Sonali Salgaonkar:** Sir, average realization of sugar you mentioned is Rs. 37 for this quarter versus how much would be in Q3 2017?

**V. Suri:** Rs 34.

**Sonali Salgaonkar:** Sir, debt and cash numbers ending for the quarter December 2017?

**V. Suri:** We had a debt of totally Rs 728 crores, at the end of December Out of that the long-term debt is Rs 636 Cr and short-term debt is Rs 92 Cr.

**Sonali Salgaonkar:** Cash on your balance sheet?



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- V. Suri:** We had a mutual fund investment balance about Rs 120 crores.
- Sonali Salgaonkar:** Sir, you mentioned that the cane crush this quarter was 12 lakh tonnes, could you approximately give the state wise breakup of how much was there in Karnataka, AP and Tamil Nadu?
- V. Suri:** Yes, Karnataka was about 8.8 lakhs and in Tamil Nadu, so we started very late it is only 0.88 Lakhs and Andhra Pradesh is 1.91 lakhs.
- Sonali Salgaonkar:** Sir, in my last question with reference to the industry you mentioned again in your opening remarks that you are expecting a higher production in sugar seasons 2017-2018. Sir, could you quantify any numbers which you are expecting currently?
- S. Suresh:** As of now the estimates are somewhere around 26.5 to 27 million tonnes.
- Sonali Salgaonkar:** And which states would be contributing majorly to this?
- S. Suresh:** Predominantly UP and Maharashtra.
- Snigdha Sharma:** Sir could you throw some light on the demand-supply, inventory situation on a pan India basis for the current year and maybe the outlook for the coming season as well?
- S. Suresh:** So, for the current year, we had an opening of around 4 million tonnes. I am talking about the sugar year 2017-2018. The production is expected to be somewhere around 26.5 million to 27 million tonnes. Consumption is also expected to be in the tune of around 25 million to 26 million tonnes. So, the closing stocks should be somewhere in the range of around 6 million tonnes.
- Snigdha Sharma:** And then any outlook for the coming season?
- S. Suresh:** I think the way it goes the plantation in all places is looking to be good. Definitely, it will be similar in the lines of this year .
- Achal Lohade:** If you could help us with the volumes with respect to sugar, distillery, cogen segment and also the realizations, please.
- V. Suri:** I will give you some broad numbers. For the quarter we crushed 12 lakh metric tonnes at the recovery of about 10% and production was about 1.8 lakh tonnes with raw sugar being about 67,000 tonnes of that. We sold about 75,000 tonnes of sugar. A slowdown in sales was because of the lower sugar price in the second half of November and closing stock we carry about 1.6 lakh tonnes at Rs. 33 per kg. So, this is on the sugar side. On the cogen side because of the lower cane crushing we did export of about 5.30 crores units and we got a better price on an average about Rs. 4 compared to 3.2 last year because of the PPA rates in Karnataka. We had a



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good story in distillery. We sold about 190 lakh liters at an average price of Rs. 50 and both numbers are better than corresponding quarter.

- Achal Lohade:** The cane crushing volume we could be looking at for the current fiscal year FY18 and FY19?
- S. Suresh:** Around 37 lakh tonnes of cane are what is expected to be crushed for the FY18 and around maybe 5% jump is expected for the season to come.
- Achal Lohade:** Fiscal year, right?
- S. Suresh:** FY19, yes. Fiscal year.
- Achal Lohade:** You did mention something about the inventory going up to 6 million tonnes at the India level. What is the production number, I missed sir? What was the production number you mentioned?
- S. Suresh:** Expected to be somewhere around 26 million to 27 million tonnes
- Achal Lohade:** What was the cane price? You said FRP plus transport plus Rs. 50 for Tamil Nadu state, right?
- S. Suresh:** Yes, correct.
- Achal Lohade:** And Karnataka is FRP.
- S. Suresh:** In Karnataka, it will be as per the the revenue sharing formula which is the FRP adjusted for recovery.
- Achal Lohade:** If you could elaborate a bit on this revenue sharing, how is this formula working out in practical sir?
- S. Suresh:** I think we will take a separate session on that because it involves quite a lot of parameters
- Achal Lohade:** It is not as simple as 70% of sugar revenue or something in that.
- V. Suri:** It is 70% of sugar revenue plus molasses, bagasse . All are taken into account at market price and then the recovery is adjusted to the same.
- Achal Lohade:** But the floor is the FRP.
- V. Suri:** Floor is the FRP, correct.
- Achal Lohade:** So if I have to ask you from a 2 year perspective do you see sugar production further rising and hence prices remaining flattish at best if not lower, would that be your right assessment?



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- S. Suresh:** It is, I think too early to predict. One thing is sure , we are expecting a lot of production. How prices are going to pan out, we have to wait and see because there are so many other factors.
- Achal Lohade:** And just last question we did announce from the Exchange that we are transferring our bioproducts business to Coromandel?
- S. Suresh:** Yes.
- Achal Lohade:** It includes the biopesticides as well as nutraceuticals?
- V. Suri:** No, only Biopesticides division which gets transferred because Coromandel is in chemical pesticides. So, as a group we feel that there is synergy in transferring from EID to Coromandel, so that the biopesticides can be scaled up both domestically as well as in international markets.
- Achal Lohade:** Is there any thoughts on the nutraceuticals business also in the similar fashion?
- V. Suri:** No, We are committed to Nutraceuticals business and we are investing money in India as well as in US to now scale up this business.
- Achal Lohade:** And when will this be transferred the biopesticides business have ...
- V. Suri:** 1<sup>st</sup> April 2018.