"EID Parry Q2 FY18 Analyst Conference Call"

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S. Suresh: Good afternoon everyone, my sincere thanks to all of you for taking time to be part of this call. I would like to give you an overview of the international markets then follow it up with the Indian scenario and then get down to the Q2 performance followed by some key points on cane availability for the future. Then Mr. Suri will take you through the financials.

Overall if you look at the international market scenario, the prices have been very subdued. Market movements have not been much, I think by this time the opening up of European Union and the availability of 3 million tons of sugar to be sold in international market is actually pulling the white prices down in international market. The added weight which is pulling down the prices is, the announcement of $100 per ton subsidy by the Pakistan government to ensure that the 500,000 tons of sugar is exported into the market. Hence, all these factors are impacting very heavily on the white sugar prices. Accordingly the raw prices have come down. If you look at, the scenario on raws , after 2-3 years of real shortage, last year it had started moving into surplus. Going forward, Brazil is expected to produce around 33.5 million tons as against the last year number of around 35. So we expect the drop of around 2 million tons which is expected to be compensated by Thai , which is going to put out another 2 million tons. And India is going to pump-in additional 5 million tons into the market. So by and large if you look at the world market it is expected to be surplus by around 5 million tons. So that is another reason why the markets are not seeing any strength in terms of bullishness.

The current rally which is happening in the market is predominantly due to the impact of crude oil price . The equation is like this, more and more crude oil prices going up ethanol parity will be really lucrative and Brazilian Mills will shift more of their crushing into ethanol and less into sugar. That means in the short term, there will be lesser sugar availability, and hence the markets are showing a slight uptrend. But what will happen is when it reaches around 15.5 cents, Brazilians will find it to be a right price to price all the sugars on a forward basis. So once again that will limit the uptrend of the market, so markets will remain in the subdued mode as far as international is concerned.

Coming to Indian scenario, We talked about this last time during Q1 analyst call. The expected closing stock as of 30th September, I think by and large remained at the same level. If you look at the sugar in year 16-17 just to recap, we had a opening stock of around 7.7 million tons. Production was expected to be 20.3; I think they are settled at 20.3. We had an import of around 0.5 million tons. Consumption was estimated to be around 24.5 it has also happened that way. So the closing stock as of 30th September has been around 4 million tons. This is what we have been expressing concern that 4 Million tons may not be sufficient and it is not evenly spread out across the country. Most of the stocks were available in UP followed by some in Maharashtra; southern part of the country was actually having a shortage. That is where the prices started going up and that is why also government came in and put in stock limits. For September it was around 22% and the October was around 8% for all the mills. Thereby the prices were also held under control. So as of now if you look at South, it's carrying hardly around month's stock overall. That is why if you look at the imports, last time we talked about EID received around 63,000 tons as raw sugar imports. We also had another round of raw sugar imports which has been allotted to us in the Q2. But this comes with the 25% duty. So the objective was to build up the stocks in the South as we move into the festive season and these stocks have already come in and they will get processed during Q3 and then they will be put into the market. So as far as the prices are concerned we expect to remain somewhat firm in South particularly Tamil Nadu

. If you look at the scenario on the sugar for the next year, you also need to have a look at the state wise numbers. Maharashtra which is done around 4.2 million tons last year, sugar year 16-17 is expected to clock in around 7.2 million tons, roughly around 75% improvement over the previous year for the sugar year 17-18. Next it is going to be UP which was around 8.8 million tons is expected to cross around 10.2 million tons. UP may post little bit more quantum also. Third is on Karnataka, which was around 2.05 million tons last sugar year. This is expected to touch around 2.3 to 2.4 million tons. So overall the production itself from 20.3 million for the country will go up to around 24.5 to 25 million tons. But the interesting aspect to note is Tamil Nadu which had produced around 1 million ton is expected to be lesser by almost 40%. That means Tamil Nadu output is going to be around 0.6 million tons. That is we have been talking about the huge drought in Tamil Nadu and the availability of cane and hence the sugar for the season 17-18. Tamil Nadu is going to be a bit tighter in terms of the sugar. Hence that was the reason why we also got some quantum coming in as imports under 25% duty. This is the broad overview on the international scenario and the domestic scenario.

Overall as far as Q2 is concerned that the performance of the company has been by and large in line with our expectations. During this period, the performance on the sugar front has been largely impacted by 46% drop in the cane availability during the special crushing season in Tamil Nadu which was earlier explained in the earlier con-calls. In fact this had a cascading effect on the production and sale of sugar. And as explained the company has mitigated the same to a greater extent by better realization of sugar price compared to the previous quarter. Also the raws which has been imported has come in definitely handy for the company.

And also for the Q2 Bio, the business profitability out of Bio has doubled compared to the previous year same quarter. This is predominantly due to the strategy which the company has implemented as far as the Neem Seed sourcing is concerned and we have been able to source it and the strategy has been put in place. On the Nutraceuticals front definitely more sales of Spirulina in overseas market in Q2 has also helped to post better results than last year. And one more development on the brand is in terms of the ethanol, the recent announcement has come on the ethanol price increase by almost Rs. 1.85 paisa per liter of ethanol sourced by OMCs. .

Regarding the monsoon, we talked about how monsoons are expected to impact our Karnataka cane availability and AP. AP has been really good I think the monsoons and the water levels are really good so things should go in line with what we had planned. And as far as Karnataka is concerned Ramdurg is one area where our unit is located which did not receive rains upto August. There has been definitely some level of rainfall in September towards the fag end of the Southwest monsoon and it was even extending in October which should help to some extent the crops in the Ramdurg area. Coming to Tamil Nadu, I think the Northeast monsoon has started showing some good signs, interior parts of Tamil Nadu has started receiving rains in the last one week or so. I think its too early to predict and if things go well for next one and a half months, we can expect the better level of planting for the current year which should translate into better cane availability for the Main season of Tamil Nadu, sugar year 18-19. With this I will now hand it over to Mr. Suri to take you through the finer numbers.

V. Suri: Thank you Suresh for the introduction and a brief background of the business during Q2. I'm extremely delighted to be a part of this analyst call to share with some specific numbers and also answer your questions on those numbers also. Just to give a preamble all numbers, which I'm sharing, for the corresponding quarter last year will include PSIL figures. As you know that the Parry Sugar Industries Ltd have been merged with EID Parry with effect from April 1st 2016.

So as Mr. Suresh said that our performance during the quarter actually went according to our plan and expectations. Operational revenue for the standalone business for the quarter was around Rs 650 crores. This was similar to what we did along with PSIL last year, so we had a flat top line. The operational revenue for the YTD has been around Rs 1137 crores. The PBT was at around Rs 75 crores, corresponding time last time was Rs 103 crores including PSIL. There has been decline of about Rs 28 crores primarily arising out of cane crushing being lower by about 4 lakh Tons compared to the corresponding quarter last year. So, on a consolidated level we had a very good performance due to very good performance from Coromandel and Parry Sugars Refineries. The overall PBT for the quarter was Rs 521 crores against the corresponding quarter Rs 337 crores with an increase of about 55%. Likewise in the consolidated YTD PBT level also we had a very good performance at Rs 570 crores for the six months result which is about 57% more than the corresponding period last year.

Now let me go to some operational parameters. I will talk about certain specific businesses. To start with sugar, during the quarter we crushed around 5 lakh tons. This was about 4 lakhs less than the corresponding quarter last year. We only operated in Tamil Nadu and due to the drought conditions we had lower output coming from the cane fields. The recovery also was lower due to the drought conditions which were prevailing earlier. But we had a good story in terms of the better yield which happened during the quarter which compensated the loss of recovery. We produced about 75,000 tons of sugar during the quarter which includes the conversion of raws into white sugar. So because of the availability of raw sugar we were actually able to produce the same amount of sugar like last year, so there was no problem in the availability of sugar to sell during the quarter. Hence, we sold similar levels of about 1.3 lakh tons of sugar during the quarter which was correspondingly same number last year.

The selling price still remains to be firm, our average selling price hovers around Rs. 37-37.50 across the three states where we operate. We carried about 60,000 tons of stock at the end of September and this only represents about 1.5 months stock what we usually sell. The closing stock actually has been valued at around Rs. 34 including Raw sugar cost also . The sugar segment had a turnover of about Rs 500 crores for the quarter.

Now let me now actually go into co-gen, where we had a poor performance because of the lower cane crushing so we were able to generate only 55% of last year number and power export also is down by about 58%. But average power price remains at around Rs 3.65 as you all know all our plants are now operating in PPA in Tamil Nadu, Andhra Pradesh and Karnataka. So the revenue for the quarter was only Rs 11 crores compared to the Rs 25 crores of last year.

As far as distillery is concerned we had a good story. We produced 174 lakh liters of alcohol which was better from last year by about 15%. Actually, the reduction of molasses due to reduction of cane was compensated by the import of molasses which we did during the quarter. So we were able to produce more and sell more during the quarter compared to the corresponding quarter last year. Alcohol sale was about 170 lakh liters up by about 13% and the price remains firm at around average of about Rs. 50. As far as the ethanol program is concerned, by November we will be completing all the entire 90 lakh liters which we had contracted last November.With this we will be fulfilling 100% on the ethanol program by end of November.

Now let me go to Bio, Nutra businesses. Both businesses had a better performance both in terms of top-line and bottom-line. Top-line was about Rs 50 crores if you look at both together and bottom-line was about nearly Rs 9 crores. Two important events happened during this quarter. As we had shared last time the Neem seed procurement was handled very well this time by us and we had now actually completed our program to get this Neem seeds for the season completely and at a price much competitive than what happened in the last year. So because of that the profitability of Bio division has improved by almost 100%. As far as Nutra is concerned we had better Spirulina sales in the European market . So we had profitability increase of close to about 70% there, so both put together we had made a profit of Rs 9 crores.

As far as CAPEX is concerned we have been spending on CAPEX this year on de-bottlenecking of plants in Karnataka and Andhra Pradesh. The program is completely over and the plants are ready for the season.All the plants are now commencing in November. During the current year, we will be spending about close to about Rs 60 crores.

Now turning to the loans and borrowings and also the interest cost, the borrowings continue to be on the lower side. During the last one year starting from last quarter of last year to now, we have now reduced the total borrowings by about Rs 350 crores, Out of that around Rs 140 crores is the reduction in the current financial year. So the program for loan reduction continues at a rapid pace. Because of that and also due to the overall interest reduction we were able to save about Rs 7 crores compared to the corresponding quarter and in the first half of the year we were able to save about Rs 17 crores . Currently we have long-term loans of less than Rs.700 crores in our balance sheet. Expenses reduction program also continues. The number which you are seeing as an increase in the expenses during the quarter and also the half year is because of change in accounting which has happened due to the introduction of GST. After the introduction of GST, the GST now actually is getting adjusted in the cost of materials consumed rather than in rates and taxes. But otherwise all our programs to reduce the cost continue to happen.

We are happy to inform that we have received Rs 89 crores of dividend from Coromandel which was declared last year.Money came in August at the 500% of the investment we have made. So that sums up total numbers in terms of the operating parameters and the financials.

Now I leave the floor open for questions from the audience. Thank you very much.

Sanjay Shah: More precisely on our Nutraceutical division, so now after getting that US FDA approval, what you see that division, how it is panning out and after that what is the progress towards addition of the value-added products like Organic Chlorella and Algae Beta and other more?

V. Suri: Actually, the US FDA's certification for us has been a very important milestone. This actually gives the lot of confidence to all our customers in the US and as well as in Europe. . There was a clear improvement in the off-take of Spirulina in the European market after this event and also it was shared with you that we have introduced a new Algae called Chlorella and we are selling in good numbers. So these two products should do well based on the confidence we get from the US FDA approval. On an overall basis Nutraceuticals we expect it to grow at around—20% CAGR.

Sanjay Shah: The margins we have done better in this quarter, do you see continuing that or….

V. Suri: Yes will we be able to continue that.

Achal Lohade: The numbers what you mentioned was, do they add up to the reported numbers in terms of the operational numbers what you gave, they are comparable?

V. Suri: Yes, they are comparable. The published results do not include PSIL figures of last year. But what I have shared with you as operating parameters, they are all with PSIL for both years. They are comparable absolutely.

Achal Lohade: In terms of operational they are comparable but in terms of the financial numbers what you've reported they are ex of PSIL.

V. Suri: Yes. Financials reported doesn't include PSIL in the previous year but the separate disclosure has been given in the published results which you can see in the notes.

Achal Lohade: You said the crushing was lower for the quarter at 5 lakh as compared to 9 lakh. What is the quantity of raw sugar which was processed in the current quarter?

V. Suri: Around 40,000 Tons.

Achal Lohade: And what was the cost, broad cost at what it was imported?

V. Suri: No actually we don't work on the cost. I can tell you about the margin. We make on an average about Rs. 2-2.5/kg margin on the raw sugar after the conversion.

Achal Lohade: And you could process only with the sugarcane crushing plants or you could utilize that opportunity?

V. Suri: We were able to do across all plants.

Achal Lohade: Including Silk Road refinery?

V. Suri: No, it is only the sugarcane factories in Karnataka and Andhra Pradesh. There was no cane crushing during this period, but we had now processed the raw sugar with the help of other fuel and bagasse.

Achal Lohade: Basically it also means that the raw sugar which was imports which were allowed was not really helpful for the refinery operations?

V. Suri: No, because refinery is independent of this operation because it is only importing raw sugar and exporting white sugar. It is 100% SEZ

Achal Lohade: So it is not permitted to sell in the domestic?

V. Suri: Within the country, they are not permitted to sell.

S. Suresh: They are not part of this import program at all.

Achal Lohade: Can you help us understand in terms of the crushing volume, how much are we looking at for FY18 and FY19 if possible?

S. Suresh: You're talking about the current crushing?

Achal Lohade: Yes, I'm talking more on the fiscal year because that is what we can work with in terms of the numbers?

S. Suresh: Current financial year total for the year we should do around 38.8 lakh tons. This will predominantly come from Andhra, Karnataka majority and then some around 10 lakh tons should come from Tamil Nadu, overall for the year.

Achal Lohade: That means about 13%-14% drop YOY?

V. Suri: Yes correct.

Achal Lohade: In terms of the recovery rates given the mix is changing in terms of the states.

V. Suri: We will be actually having better recovery than last year due to things being more in favor of Karnataka and Andhra Pradesh. We will be crossing 10% on an average.

Achal Lohade: In terms of the distillery and co-gen volumes, any rough guidance you could talk about?

V. Suri: For the year, you are saying?

Achal Lohade: For the year FY18.

V. Suri: As far as the power is concerned it will be down from last year to the extent of 14%-15% because of the cane volume been down. But in terms of the distillery it will be same as last year because we have compensated the lack of sugarcane through the import of molasses, so will be able to sell the same amount of alcohol and ethanol this year like last year.

Achal Lohade: Would you be able to talk about what quantity we have imported and would there be further imports?

V. Suri: No actually we had imported about 50,000 tons of molasses this year and if opportunity comes and prices are good then we will continue with this program because in Tamil Nadu there is no molasses available.

Achal Lohade: What is the margin here like you mentioned for raw sugar, we made Rs. 2-2.5 in terms of the distillery for imported molasses what kind of margins?

V. Suri: We make about Rs. 5 on an average.

Achal Lohade: I was under the impression typically 15 to 20.

V. Suri: Molasses are being imported from Africa and Middle East, so we are ensuring that our plants are running full and ensuring that the fixed costs are covered. So whatever is the shortfall of molasses what we cannot get in Tamil Nadu we are now compensating by importing molasses. But it doesn't give us great money, but it definitely keeps our plant running . We have to pay customs duty on these imports

Achal Lohade: What is the custom duty?

V. Suri: 10%.

Achal Lohade: Just last question on the cane price, what is the cane price for FY18 we should assume at blended level?

S. Suresh: Cane price for Tamil Nadu should be around Rs 2750/MT or so. Overall average should be around 3,100-3,200.

Achal Lohade: And what is the cane price for the season for AP and Karnataka this season?

S. Suresh: AP should be somewhere around Rs. 3000/MT, Karnataka should be roughly around Rs. 3300/MT.

Achal Lohade: And what kind of recovery rates we are looking at from AP and Karnataka?

S. Suresh: AP will be around 10% and Karnataka should be somewhere around 11.2%-11.3%.

Achal Lohade: FY19 would we see a complete recovery, at least whatever drop we have seen in FY18 would it be recovered in FY19 given Tamil Nadu having better rains and Karnataka too might recover?

S. Suresh: Yes I think it will be too premature to say about Tamil Nadu because they have just got only around 7 days of rainfall, almost looks like current year level is what we can expect as far as next year is concerned. Karnataka may be slightly better off . People are going more for competition crops like Banana, Maize and other things which require relatively less amount of water. So we have to keep our fingers crossed and wait because they have to harvest it and then they have to take a call to come back to cane based on sustained water availability. It will be slightly premature to talk about Tamil Nadu, maybe maximum will be current level or it could be shade even lower also. That depends on when the farmer is going to come back to cane.

Achal Lohade: It would be really helpful if you could put up these volume realization figures in the press release, just to we can ask more questions on the strategy then asking on the data points.

V. Suri: Normally we don't do, but because in the press release its only overall performance, we don't share parameters. But in the con-call you can always ask questions.

Achal Lohade: Because we have seen in case of other companies, in our industry as well as other industries, we have seen companies putting up separate press release with respect to the data points because it is fairly critical to understand the business those who cannot really….

S. Suresh: Too many SKUs, stock keeping units, too many plants then there is power, distilleries, there is a peak rate, there is a normal rate. Then within that there is a Pharma grade etc.,

Achal Lohade: Not in so much nitty-gritty, just the overall segment wise, distillery volume.

V. Suri: We appreciate your point.

Chnadragopal: I wanted to understand the GST related thing which you explained in other expenses, can you please clarify again?

V. Suri: Actually, expenses if you see, the rates and taxes portion has increased compared to corresponding to the last year. That is because the excise duty in the earlier years was added to the closing stocks. So with GST coming in, that requirement is not there. It goes as a part of the cost of materials consumed, so the corresponding numbers are not comparable in that sense. So the point I was making is that we are continuing to be focused on the cost reduction as far as the other expenses are concerned.

Moderator: Thank you. We do not have any questions.

V. Suri: Thank you very much on behalf of EID Parry, from Mr. Suresh and myself, Suri we have been very happy to be part of this analyst call. Thank you very much for your participation.

S. Suresh: Thank you everyone.