"E.I.D. Parry Q3 FY-19 Investor Conference Call"

February 04, 2019

MANAGEMENT: MR. S. SURESH – MANAGING DIRECTOR, E.I.D PARRY INDIA LIMITED
MR. S. RAMESH KUMAR – CHIEF FINANCIAL OFFICER, E.I.D. PARRY INDIA LIMITED

MODERATOR: MR. KASHYAP PUJARA – AXIS CAPITAL LIMITED

S. Suresh: Good afternoon everyone, I would like to give a brief overview of the market updates of the country's production, the consumption etc. also the key policy changes, the notifications which have happened during the period and then Mr. Ramesh Kumar will take through the key numbers for the quarter.

In SY 2017-2018 we had a closing stock of almost 10 to 11 million tons. Production estimated for this SY 2018-19 is around 30.7 million tons. There has been a drop estimated in the total sugar production for the country. Consumption is expected to be around 26 million tons, so closing stock is estimated to be around 15 million tons as of September of 2019. The government has already talked about the buffer stock of almost 3 million tons; that means about 12 million tons out of which 5 million tons should sold as MIEQ. Hence we should have a closing stock of close to around 8-9 million tons at the end of September. If the buffer stock still continues to be there and if out of the MIEQ of 5 Million, 3 million tons is expected for the current year considering not much aggression in terms of the exports by the industry, the Closing stock would be around 12 million tons which is almost 50% of the annual consumption of the country, which is too huge. Next season production is also in similar level of current year , maybe a tier lower, which is estimated to be around 28-29 million tons for the next sugar year, the entire quantity can't be moved out of the system by which still adding a surplus of another 2-3 million tons. It means that the quantum of sugar has to go out of the country for the prices in domestic market to stabilize. Currently the MSP is almost at Rs. 29.

The crushing is peak across Uttar Pradesh, Karnataka and Maharashtra. During Crushing period the prices are expected to take a dip so the prices are trading almost at the MSP levels. The difference between one region and another region is almost limited to the extent of the logistic cost. Otherwise most of the prices are trading around Rs. 29 only. Because of the government's intervention in terms of the MSP, the prices have not gone down below MSP which is one saving aspect. Government continues the release quota mechanism. Against the normal volume the company would sell around 35-40 thousand tons a month , we are selling around average of 23-25 thousand tons a month. Since the quantum is restricted as a company, we are continuing to focus more on the retail business as well as on the institutional business, than the general trade.

As far as MIEQ concerned, the export quantum, during the quarter we have exported around 14,000 tons and we hope to comply with the eligible export requirements in the Q4 as well. In sugar season 2017-2018 cane would be closer to almost 10% increase over the last year level. In Karnataka the water levels are coming down and government has already stopped the water supply through canal irrigation and restricted for drinking water purposes in the Bagalkot, Ramdurg and other areas, where the water level in the ground level has gone down. Consequent to this, there will be a drop in yields and the planting for the next year is also expected to be lower than the current year level. So the exact numbers we will be able to estimate by March once the crushing of Karnataka gets over. With regards to ethanol blending program we continue to honor the commitments what we have made to the oil manufacturing companies and for the first time, business has supplied B-Heavy molasses from our Sankili factory in Andhra Pradesh as per the process approved by the government.

National Sugar Institute has approved the production process of B- heavy in terms of the standard operating procedure as well as the extent of sugar declaration, which has been certified and I'm happy to say that E.I.D.'s SOP has been asked to follow as the guide for the other mills. MSP - Minimum Support Price will not have increase for a simple reason, if there is going to be any increase in the MSP the domestic millers will sell in the domestic market, there will not be any incentive for export. Government will wait for the entire export quantity to happen post which government will come back with the announcement in terms of an increase in the MSP .

Now I would request Mr. Ramesh Kumar to take you through the finer details.

Ramesh Kumar: Thank you Mr. Suresh, and very good afternoon to all the participants. I am very happy to be part of this call and share some key information on the financial performance of the company.

I would like to remember the preamble which was given during the previous quarter that we have hived off our bio business to our subsidiary Coromandel International Limited with effect from 1st April 2018. So as per the Indian Accounting Standards we now have drawn our accounts both 2017-2018 as well as 2018-2019 accounts wherein bio business is shown as discontinued operations. The company has also divested along with the bio product business, the shares which held in Parry America which is an integral part of the bio business deal. We have even recognized a profit of Rs. 208 crores on the sale of bio product business and Rs. 35 crores on sale of investments in Parry America during Q1. Currently the sugar and Nutra business are shown as part of the continuing business.

On a stand-alone basis, we had operational revenue of Rs. 479 crores which is an increase of about 13% over corresponding quarter mainly due to increase in sales quantity of 0.25 lakh metric tons and distillery sales volume by 16 lakh liters. On YTD level, our turnover is about Rs. 1,286 crores which is about 15% drop from the corresponding of last year due to the sales drop of 0.15 lakh metric tons and there is also drop in the average realization price by about Rs. 6.5 per KG. which is 21% drop in the sales realization. The PBT for the quarter was about Rs. 46 crores loss which is lower than the last year by about Rs. 45 crores, that is last year we did a loss of about Rs. 90 crores in the corresponding quarter due to the exceptional nature of SAP cane arrears one-time settlement for Tamil Nadu units of about Rs. 82 crores. The PBT for the 9 months ended this year is a loss of about Rs. 188 crores and PAT we have reported a profit of about Rs. 34 crores. On a consolidated level the PBT was declared at around Rs. 213 crores for the quarter. We have also declared a PAT for the quarter of about Rs. 145 crores.

As far as the sugar operating numbers are concerned during the quarter we had crushed around 11.8 lakh metric tons which is similar to the corresponding of last year. The recovery was better than the last year the corresponding period at about 10.15%. We produced about 1.2 lakh metric tons during this quarter, sales was about 1.01 lakh metric tons including the exports of 0.14 lakh metric tons and the average selling price was about Rs. 32 per kg and the average selling price is Rs. 3 more than the minimum selling price because of the sales mix which Mr. Suresh had already explained. We carried about 1.28 lakh metric tons as of end of December was valued at around Rs. 30.84 per kg. As far as our cogen is concerned, we exported about 4.57 crore units at an average rate of Rs. 4.19 per unit. Currently we have a PPA in Andhra Pradesh and Karnataka and we don't have PPA in Tamil Nadu rest all our units are sold in IEX.

As far as our distillery is concerned, we had a sale of about 205 lakh liters for the quarter of which the ENA was 166 lakhs liters and ethanol was 39 lakh liters. The total average realization in the quarter was around Rs. 46 per liter.

Nutra business India increased 26% over the last year, the turnover of about Rs. 19 crores. At the consolidated level the Nutra business continues to do well because the overseas subsidiary Alimtec had a PBT of Rs. 4.5 crores and US Nutraceuticals Rs. 2 crores. On YTD basis had a turnover of about Rs. 159 crores which is in drop of 2% over the previous year and PBT was about Rs. 9 crores against Rs. 7.7 crores of the corresponding 9 months period of the last year.

As far as the investment in CAPEX is concerned, we are actually now continuing to be very careful in our investments. We invest only in the Karnataka and the Andhra Pradesh plant. The key CAPEX which we had done during this period is Rs.50 Cr. We had invested in Haliyal backend refinery, Rs.5 crores in the warehouse and we also proposed an incineration boiler around Rs.27.5 Cr at Sankili in sugar and around Rs. 7.5 crores in Nutra.

As far as the loans and interests are concerned, we continue to reduce the loan quantum. During the quarter we reduced further Rs. 26.33 crores in the long-term loans. It included regular scheduled payments. As far as the short-term loan is concerned, we are in line with the previous quarter, buffer stock loan of Rs. 95 crores at 0% interest, the completely subsidized loan given by the government is still continuing. The finance cost was around Rs. 18 crores in the current quarter against Rs. 17.4 crores in the last year. We continue to have very tight control on the loans as well as the interest cost.

Another area we exercise our control is on the expense side. Expenses have got reduced to over the last year by around Rs. 6 crores and also our program of cost reduction continues in this tight situation of the sugar industry.

Shariq Merchant: Question is on the ENA prices in the market currently. So after the government's announcement on the ENA prices how have you seen the prices move? And also regarding your supplies, so the government has; have we started from December itself or has it been more of a January-February phenomenon?

S. Suresh: Ethanol is a normal program. The ethanol year is normally between December to November. This year we have bid for the quantities and our supplies are going on as per the plan. Difference compared to last year is that we have started supplying from Sankili unit B-Heavy molasses-based ethanol. This B-Heavy molasses-based ethanol compared to the C-heavy the price differential by the OMC is around Rs.10 per litre, B heavy is Rs. 52 against C heavy of Rs. 42. The contribution advantage is to the extent of Rs. 2-3 because of other additional cost involved in the process. So net-net B-Heavy compared to C-heavy our C- molasses is better by almost Rs. 2-3 per liter. The added advantage is that the quantum what we are producing as B-Heavy equivalent quantity will be allowed to be sold in the domestic market in the subsequent quarter over and above the normal release quota mechanism.

Shariq Merchant: Prices for ethanol in the open market and the ENA prices in the open market would have commensurately gone up because of the government is procuring a significant quantity at a meaningfully higher price?

S. Suresh: Yes, for the ethanol there is no open market price, it is only OMC who have already fixed price. On account of the price and the volume commitment which the sugar mills have made to the OMCs, we have seen a distinct increase of Rs. 1 or 2 per liter in Karnataka as far as the ENA is concerned whereas in Tamil Nadu the numbers have gone up by Re. 1. Tamil Nadu continues to see a huge influx of ENA whether it is molasses-based or a grain based ENA coming into the state from the northern states. So the increase what Karnataka has seen as Rs. 1 or 2 is not being seen in Tamil Nadu. Tamil Nadu continues to be hardly a Re.1 increase compared to what we used to have. Based on the molasses availability and other things we will decide the ENA price as well. Last year Tamil Nadu was seeing a very good price Rs. 52-53, today we are talking of about Rs. 48 as the price. The impact is yet to be seen in the ENA prices.

Shariq Merchant: Sir you're also looking at an expansion of your distillery. Could you also talk about what the CAPEX for that will be? And when it will come on stream?

S. Suresh: On the expansion of the distillery, we have started work in the Sankili incineration boiler. This will not add to the expansion it will be more of handling the environment in a better way. So that is a specific program, it should help us in running the distillery for more period of time even during some rainy season as well. The other expansion though we talked about the Bagalkot expansion in the last quarter we are still evaluating the Bagalkot thing as I was talking about in my opening remarks, the total molasses availability, sustained availability of molasses for the plant for the next 3-4 years is being strictly evaluated because the cost is estimated to be around Rs.80 Cr. If this is the type of investment, then we need to be sure of the continued molasses availability for the next at least 3-4 years in order to ensure the payback with government's interest subvention.

Shariq Merchant: So I would presume that in another quarter or so you would be in a position to take a call on this?

S. Suresh: Absolutely, right.

Shariq Merchant: Alright, Who will be the vendors that you all would look at for this boiler?

S. Suresh: As the proposal has been recently only approved by the board. we are now evaluating the different vendors post that only be will be able to confirm who will be our vendor.

Shariq Merchant: And sir my last question is on the compressed biogas opportunity. In October the government had talked about setting up 5000 plants over a period of 5 years across the country and sugar mills would be primary beneficiaries of this if they choose to undertake these projects. Is this something that you all have evaluated and is that something that you all would consider investing in?

S. Suresh: Yes, in fact I've also been meeting the people from Indian Oil regarding the CBG, the compressed biogas. The raw material source for the compressed biogas could be predominantly from press mud, spent wash, bagasse. There is an opportunity, we are now looking at the end-to-end to unlock the value from the press mud by converting them into the biogas and then sell CBG to the Indian Oil or oil marketing company. They have announced Rs. 46 per liter or per kg of the biogas. The net realization for a mill will be somewhere around Rs. 40. We need to mitigate the raw material availability with the mills and to find an investment partner for this and also we need to have a long-term contract with the oil marketing companies so that the both the ends are tied, and we will be able to unlock a little bit of value from this. We are on the process of evaluating different vendors for this proposal. Once we evaluation is completed we will also be in a position to take a call. Because these are something which may not be the core of the business but very important to unlock the value from the waste or the byproducts what we are getting. It may take another 3-6 months before we zero in on some proposal on this. Because government is also talking to all the sugar mills quoting this 5000 plants to the OMCs. We have met people from Shell, IOCL etc. Everyone is trying to tie it up with the sugar mill and try and see whether something can be done on this.

Shariq Merchant: Ok.So why go to an investment partner? Is there a very large CAPEX involved?

S. Suresh: We are in the process of evaluation. Ultimately for any sugar mill the quantum of resource available is very limited. There is an investment subsidy also which is available. It will be made available only when sugar mill is not directly investing into it.

Shariq Merchant: Okay, a subsidy is available if a sugar mill is not directly investing?

S. Suresh: Yes, I think there are certain clauses which are there to be clarified. It has to be like another company or something which has to invest to get the benefit for the investment subsidy if my remembrance is correct. For example, we are talking about for 100 tonne press mud the quantum of investment will be to the tune of Rs. 30 crores. Of course, there will be byproducts of CO2 and other by products which will be come out along with the CBG. There are also some challenges in terms of the liquid fertilizer during the process of production of CBG. we are also checking with concerned experts in terms of how do we handle those liquid fertilizers as that needs to be sold as well to a marketing partner So we are in the process of evaluating the process before we take a holistic view on such investments.

Shariq Merchant: Okay, and my last question is in terms of vendors you said you all are looking at multiple vendors. Who would be vendors who would be catering to this opportunity?

S. Suresh: There are lot of vendors like Praj, Carbon Clean they are based out of Germany and they have their own supply offices in India as well. We're analyzing the merits and demerits of the different proposals and which proposal will suit us better to be the partner for us in the long run. There are vendors who have offered to invest and run it ; build, operate, run and then maintain it for us. Different models are being proposed. We are in evaluation step only.

Ritika Garg: Good afternoon sir. I wanted to know what would be the cost of production for sugar in Q3 of FY 19.

Ramesh Kumar: It is around Rs. 32 per kg.

Ritika Garg: What would be the average sales per month under the release mechanism in Q4 of FY 19?

S. Suresh: Expected to be around average of 25, 000 tons.

Ritika Garg: So it has come down?

Ramesh Kumar: Previous quarter was around 27000 to 30,000 tons. This quarter we have presumed it to be at an average of 25, 000 tons.

Ritika Garg: Okay, but we had expected it to increase in excess of 30, 000 tons per month, right?

S. Suresh: No, government allotted quota based on the average consumption for the earlier quarter based on the availability of sugar. So we do not have a direct control on that. We are representing through ISMA in terms of what is the basis of allocation to the rest of the mills. Only the quantum which is being allocated is known to us.

Ritika Garg: So do we know till when is this release mechanism in place?

S. Suresh: It is a big question mark. As of now the way it looks likely till the sugar season ends they may keep it. As is the period given for the export to happen. Until then during that time the domestic prices also have to be maintained around at Rs, 29 then the quota which has to be sold in the domestic also is kept, balance is expected to go out of the country.

Ritika Garg: Okay, and sir could you also tell how did the refinery do – Parry Refinery, in the Q3 of FY 19?

Ramesh Kumar: Q3 FY 19 we had operational revenue of around Rs. 177 crores and PBT was positive around Rs. 17 crores.

S. Suresh: See the refinery from an operational stand point continues to perform very well, in terms of efficiencies, in terms of throughputs. However, international prices and the spreads which are available continue to really put a huge pressure on the refinery in terms of the premiums.

Ritika Garg: Right, so again in Q4 or FY 19 because of the raw sugar prices do we expect like FOREX losses?

S. Suresh: We have to wait and see. Because the international premiums how they flare up accordingly only the refinery performance will be. The difference between the raw sugar and white sugar price is what has to be always kept in mind. It is not about only one leg which is raw sugar.

Ritika Garg: Okay, and sir the CAPEX that we were doing for the distilleries that you said on the previous question was Rs. 250 crores right?

Ramesh Kumar: Rs. 27.5 crores is our Sankili incineration boiler. The overall, we had a proposal of Rs. 220 crores sanction which we received from the government.

Ritika Garg: Right, so of that we had planned to spend Rs. 125 crores I think in FY 19.

S. Suresh: That was what I was explaining that the first, only for the Sankili unit we are spending around Rs. 27 crores for the incineration boiler. The other ones we are closely evaluating those proposals in conjunction with the sustained molasses availability for the future period. As you see now the next year cane availability could be lower as far as Karnataka is concerned. So we are just surveying the cane areas and cane fields to understand how much should be the cane availability based on which we take a call in this quarter.

Ritika Garg: Sir in FY 19 then what would be our CAPEX till date?

Ramesh Kumar: Around Rs. 55 crores.

Ritika Garg: And for FY 19 the distilleries sales we expect it to be in excess of 600 lakh liters?

S. Suresh: Yes, it may be.

Akshay Ajmera: Sir can you share some more update about the Nutra business and the JV that we had Synthite?

Ramesh Kumar: Nutra business performances which has increased to 26% over the last year with around a turnover of about Rs. 19 crores. And consolidated level also it has done very well. At YTD level the PBT around Rs. 4.5 crores.

Akshay Ajmera: Sir are we seeing good traction.

Ramesh Kumar: with regards to JV with our Synthite the project is in process. So the likelihood of commencing the project during FY 19-20.

Akshay Ajmera: During Q1?

Ramesh Kumar: End of the Q1.

Akshay Ajmera: Okay, and we are seeing good traction in the US subsidiaries of Nutraceuticals?

Ramesh Kumar: Yes, as of now good.

Akshay Ajmera: Okay, so demand is growing and everything is going on track.

Ramesh Kumar: Yes, it is going on track.

Akshay Ajmera: Okay, and sir any updates on the fire incident that have occurred post December quarter around the Coromandel plant? Do you want to share with us any economical or operational impact it could have in the Q1 or Q4?

Ramesh Kumar: See as far as E.I.D. is concerned Coromandel has filed with the stock exchange stating that there is no material effect on whatever the claims they have made. I don't think we have any adverse anything on that.

Akshay Ajmera: Okay, so nothing material effect could have happened because of the notice issued by the Pollution Control Board also to closure of the….

Ramesh Kumar: Coromandel has already gone on board and explained the fact.

Akshay Ajmera: Okay. The Pondicherry plant that we are about to close does not have any material impact or any meaningful contribution to the disposal of the non-core assets that we could have from the plant?

Ramesh Kumar: Yes we will not have.

Akshay Ajmera: Okay, thank you sir.

Manish Agarwal: Could you please tell me the long-term debt and the working capital debt as on 31st of December?

Ramesh Kumar: Long-term loan has reduced to Rs. 382 crores as of December and short-term loans to Rs. 126 crores.

Manish Agarwal: Okay, what are the production expectations for Q4 and FY 20 also?

S. Suresh: So we expect to crush in our running units in Q4 close to around 23 lakh tons of cane which should produce somewhere in the range of around 2.5 lakh tons of sugar.

Manish Agarwal: And next year?

S. Suresh: For next year we are doing the survey of the field to see what is the extent of planting coming up as the harvest gets over only by March end, and also we will get to know the mood of the farmer to go for the cane and depending on the water availability then only we will be able to comment on that.

Manish Agarwal: And lastly on the realization front, where do you see in Q4 sugar realization?

S. Suresh: Closer to the MSP level as far as the base price is concerned, as most of the mills are still be continuing to crush till the end of March.

Manish Agarwal: And even next year would be similar, because lot of inventory would be there?

S. Suresh: No, normally as you see the season when the Q1 of the new financial year starts, by that time hardly in South many of the mills will not be running and in UP and Maharashtra will be running. Prices tend to stabilize in Q1 and then move up a little bit because the pressure on the mills to pay the farmers is no more there. Based on past history if you see so many years prices tend to flame up in April and May after March crushing season is over.

Kashyap Pujara: Could you just give us an update on the refinery operation and also what is the debt on the refinery as on date?

S. Suresh: The refinery has been running full blast and in terms of very effective in terms of the process losses and all other specific operating parameters.

Ramesh Kumar: Debt position totaled, both short-term and long-term put together around Rs. 1200 crores is there.

Kashyap Pujara: Okay, it is good to know that it is running full out but what would be the 9 month profit on this operation?

Ramesh Kumar: On a PBT level it is a loss around Rs. 115 Crores.

Kashyap Pujara: Okay and for the quarter?

Ramesh Kumar: this quarter has been very good for them; they made Rs. 19 crores.

Kashyap Pujara: Yes now how do we look at this going forward, how are the spreads?

S. Suresh: No, see refinery the spreads continue to be under huge pressure, because it is the raw sugar and the refined sugar, the difference between them plus the availability of the sugar in terms of the premiums from Brazil those differences only should; normally any refinery requires around $60 for the refinery to run in a really profitable manner, net off all the input; landing into the refinery and exporting out of the refinery the differential is around $60 the refinery can definitely breakeven and make some money. Anyway, the current differential is somewhere around only $35-40 which now putting pressure on the refinery and if you see the international market Brazil has been low in terms of the outputs. The latest estimation must have seen the world is trying to see a 1.3 million tonne deficit, Brazil has already come down heavily in terms of the outputs and the only area where the world market is still operating very low in terms of value is because of the fact that Indian exports are still to get into the world market. If India springs a little bit of surprise in terms of the output then no one else can feed the world market. In that case the deficit can even become wider. Only such deficits can bring back the white premiums for the refinery on which; in fact, most of the refineries will be really stressed across the world. Even the biggest refinery of Al Khaleej we understand is operating at 30% of their capacity levels. They are unable to sustain and produce at this levels and able to sell whereas our refinery has been able to sell flat out and then able to sustain operations say at least for a period of time.

Kashyap Pujara: So this $60 spread is basically a spread at the PBT breakeven is what you are saying, not at the EBITDA right? At the $ 60 spread we would be able to make, we would be PBT breakeven?

S. Suresh: Correct.

Kashyap Pujara: Okay, and if you were to basically look at the refinery operations over decades you know or over the years in the past, what would your assessment of the normalized spread be? Because I understand there are few years which can be very bad like the ones we are but and few would be outlier very good years but if we disregard both of the extremes then what according to you is you know, your assessment of normalized spread?

S. Suresh: Actually, the best spreads I think were around $ 90-95, if you would see the past. The worst has gone as low as $ 32-33. So $ 60 should be a reasonable level for a refinery to stay afloat and do a breakeven.

Kashyap Pujara: Okay, and lastly, I just missed your debt on the sugar side. You said short-term was 126 and long-term was 300 something right? I missed that.

Ramesh Kumar: 382, as of December 2018.

Kashyap Pujara: Sure, okay and just a question on you know, a refinery lastly. How do pair down this Rs. 1200 crores, we will have to wait for good years that is the only other option?

Ramesh Kumar: Long-term is Rs. 235 crores, short-term is Rs. 952 crores.

Nagraj Chandrashekar: Similar to what we've seen in our Puducherry mill are we seeing distress in terms of cane availability in any of the TN mills?

S. Suresh: As of now In TN, compared to the current year I am seeing at least a 10% increase in the cane availability for the next year as things stand better because after a long time, we have got some good rains in Pugalur and Pudukottai. So it better compared to the current year in terms of the planting. We will have to see how long this sustain and then talk about the distress, may be 6-8 months from now.

Nagraj Chandrashekar: And on the distillery side given the capacity increases we might be doing and the increased production from B-Heavy molasses going forward what level of EBITDA can distillery segment to an annualized basis say by FY 22 when you have Bagalkot as well the CAPEX completed there?

S. Suresh: Now we may not be able to answer that question right away because the questions is about FY 22. As I have said we are now evaluating availability of the molasses on a sustained basis of the next 5 years. I am not able to see that molasses availability because at what cost molasses available in the open market. Ideal thing for running Bagalkot is to run out of own molasses in Karnataka. Otherwise imports from UP and other things will prove to be very costlier and it may be not be possible to pay back. So we are just doing an exploratory study on that based on which we will be able to take a call on whether to really go for the expansion or not. As the investment is a huge ,we talked about Rs. 250 crores on 4 distilleries only the sample we have done which is around Rs. 27 crores. The balance Rs. 225 crores will have to provide pay back in the shortest possible time, without that we will not be able to take a call . Hence you will need some more time to explore that.

S. Suresh: Thanks everyone for joining the call and just participating in the discussion.

Ramesh Kumar: Thanks to everyone.