"E.I.D. Parry (India) Limited Q4 & FY-19 Earnings Conference Call"

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S. Suresh: Good afternoon everyone. On behalf of E.I.D Parry., we thank you all for taking time out and joining this analyst call. I have with me Mr. Ramesh Kumar who is the CFO and I also have Mr. Suresh Kannan who is heading the Sugar Refinery as well.

I would like to inform that the profit after tax for the company has been at Rs. 163 crores as compared to the Rs. 101 crores of the previous year. And Profit After Tax before the discontinued operations is Rs. 27 crores as against the Rs. 81 crores of the previous year. We have achieved this despite the fact that the price of the sugar has fallen by almost close to Rs. 5.5 per kg, However due to various initiatives taken up, we have been able to pull up this level of performance. Now I will take you into the global scenario for sugar updates and about the Indian scenario as well. Then Mr. Ramesh Kumar will take you through the finer details of the financials and other details.

Overall Indian sugar production is expected to be almost at around 33 million tons in the sugar year 2018-19. India is expected to become the largest producer of sugar globally. Already it is the largest consumer as well. Also, in Thailand the sugar production has crossed almost 14 million tons whereas in Brazil the sugar production has dropped to 26 million tons where the preference has been towards ethanol.

So, there is expected to be a surplus of sugar in the sugar year 2018-19 as a whole. If you look at the ensuing season from the Indian standpoint because of the lower dam levels in Maharashtra and also the prevailing drought conditions in Maharashtra and Karnataka the sugar production for the next season as an overall country is expected to be somewhere in the range of 27 million tons to 28 million tons. It is almost 15%, 20% lower than the current year production of 33 million tons.

And there could be further downside on the sugar production depending on how the monsoon pans out. Brazil as I have been talking about the sugar mix being unfavorable, ethanol is going to be produced more and more because of the favorable energy markets. So, Brazil also could be lower.

All these put together the overall year we can expect a deficit scenario for the year 2019-20. Deficit could be somewhere in the range of 2 million tons to 3 million tons. As there is huge surplus of white sugars sitting in India the global refined sugar prices are expected to be a bit subdued during the year.

Coming to the Indian scenarios, as I had spoken earlier also for the sugar season 2017-18 we had opening of almost 10.4 million tons. With the production of 31.7 million tons which we spoke about in the last call also we were expecting close to around 13 million tons as closing stock for the sugar season 2018-19. However, during the last two to three months the production increased and India is expected to close around 33 million tons.

So, that means we should be sitting on a stock of 14.5 million tons as we end the sugar season in September. And the outlook on Indian production for the next season also is somewhere around 27 million tons, 28 million tons that means you are talking about a similar level of closing stock for 2019-20 as well because the consumption is not going to change in a big way at all. It is going to be hover around 25.5 million tons to 26 million tons.

From the pricing side the only good development during the last quarter is that MSP has been increased from Rs. 29 to Rs. 31 per kg of sugar. This was a long overdue, ideally it should have been done along with the FRP increase that is what the Government has talked about earlier as and when there is a revision in FRP they must also be correspondingly revised. Unfortunately for the last 6 months the revision has not happened. This is the only silver lining in the last quarter wherein the MSP was taken up from Rs. 29 to Rs. 31 by the Government.

With so much of surplus coming in the trade prices are continuous to be under pressure and release quota restriction is a one which is actually trying to hold the prices at these levels. One way it is good from a price perspective However, from a volume perspective the mills are now restricted to sell only a limited quantity. Given this background company has focused majorly on the retail as well as the institutional segments and trying to sell as minimum as possible in the trade.

The good news here is the retail has grown almost 100% over the previous year so that is auguring well for the business. Institution also has grown close to 50% from a refined sugar category where good realization for that type of sugar.

On the export front on the quota of almost 60,000 tons for the sugar season 2018-19 the company has already exported 46,000 tons over the last financial year. The balance is also expected to be exported during the current financial year.

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

Ramesh Kumar: Thank you, Mr. Suresh. Good afternoon to all the participants in the analyst call. I am happy to share you the performance for the year 2018-19 and also operating parameters.

I would like to remember the preamble which was given in last quarter also. We have hived off our bio business to subsidiary Coromandel from 1 April 2018. So, our results are actually given in accounts in the form of continuing business and discontinued business. The bio business are being called out as per Ind-AS requirements as discontinued business and shown in the result separately.

Sugar and Nutra business are shown as part of the continuing business. Consequently, the company has recognized profit of Rs. 208 crores on sale of bio-pesticides divisions on Rs. 35 crores on sale of investment in Parry America as profit from discontinued operations.

Now I will turn our attention to the financial performance of the company. The revenue of the company for the year 2018-19 was Rs. 1855 crores which is less by 4.5% over last year Rs. 1942 crores. This drop in revenue is due to lower realization which Suresh had already explained to you. Almost Rs. 5.50 we lost per kg over last year. This is 15% on the price of the last year even though we had higher volume of 4 lakhs metric tons as against 3.84 lakhs metric tons which we had sold last year. The sale realization for the current year was around Rs. 31.3 per kg against Rs. 36 per kg in the previous year. The revenue for the quarter ended 31 March was Rs. 569 crores as against the last year of Rs. 432 crores whereas we had a very good growth of 32% for last year majorly driven by the exports quantity of 46,000 tons in the last quarter within allocated quota of 60,000 tons.

The higher sales volume was allotted during this quarter as per the release order mechanism. The PBT for the year on continuing basis was loss of Rs. 22 crores against the last year profit of Rs. 48 crores. The decrease in profit was mainly because of drop in the average sales realization in sugar and distillery business.

The PBT of the continuing business for the quarter ending 31 March 2019 was Rs. 166 crores as against Rs. 94 crores last year. The company as a whole PBT was Rs. 187 crores as against last year Rs. 78 crores. The Profit After Tax was Rs. 163 crores against last year of Rs. 101 crores.

On a consolidated level the PBT for the company was Rs. 837 crores against last year Rs. 868 crores backed by very good performance from the Coromandel side. The Profit After Tax for the company was Rs. 438 crores at consolidated level against the last year's Rs. 517 crores which is down by 15% mainly on account of sugar realization and other parameters which I explained to you.

Let me share with you some of the operating numbers of business for 2018-19. As far as the sugar is concerned, the company crushed about 37 lakhs metric tons at par with the last year crushing levels. The recovery was also around 10.1% which was against the last year which is also about 10% last year.

The production for the full year was about 3.7 lakhs metric tons of sugar against the last year was about 5 lakhs metric tons which included the conversion of even imported brown sugar to the extent of 1.3 lakhs metric tons. The sugar sales for this year was close to about 4.04 lakhs metric tons as against 3.84 lakhs metrics tons.

The sales volume is as per the release order mechanism which is allotted by the government since June '2018 we also did 0.46 lakhs metric tons to meet MIEQ requirements. The average selling price for the year was about Rs. 31.3 per kg against the previous year of Rs. 36.3 per kg. The low realization was spread throughout the year. The stock carried by us is nearly close to 2.7 lakhs tons at the end of the year because of the stock control as required by the government. The closing stock was valued at around Rs. 31 per kg on an average. The revenue for the year from the sugar alone is Rs. 1,390 crores.

Now as far as the Cogen is concerned, we have generated 32.7 Crore units and exported 16.3 Crore units during the year. The average rate was close to about Rs. 3.8 per unit and currently

Karnataka and Andhra Pradesh are the only two states which are in PPA. Tamil Nadu is not in PPA. We are actually selling power in Tamil Nadu through IEX only. Approximately Rs. 2.8 per unit we are realizing through IEX. The Cogen revenue for the year was about Rs. 125 crores against the previous year sale of Rs. 111 crores.

As far as distillery is concerned, we have produced alcohol around 647 lakhs liters and sold to the extent of about 662 lakhs liters at an average price of Rs. 46 per liter during the year. The ENA sales were about 457 liters and the average price was around Rs. 47.2 per liter. During the year Ethanol we sold about 205 lakhs liters with an average price of around Rs. 43.7 per liter. The distillery revenue was close to Rs. 318 crores against the previous year of Rs. 305 crores.

Now I will share some of the information on Nutra business.

Nutra revenue was almost in similar lines to last year close to about Rs. 71 crores and the PBIT was about Rs. 2 crores which was lesser than the last year by about Rs. 6 crores. Nutra division has lesser PBT because of the drop in sales of Spirulina due to the drop in volume and pricing pressure. Otherwise we had a good year for Chlorella production. The Chlorella production has stabilized very well and we recorded 85% growth in sales in Chlorella over the previous year.

As far as the overall CAPEX is concerned, we have been sharing with you for quite some time that we are very prudent in our CAPEX approach. Last year we were actually invested around Rs. 58 crores in the CAPEX. The major areas of CAPEX at Haliyal we had a backend refinery of around Rs. 15 crores. We had a pre-extraction mill for Rs. 9 crores and various equipments in distillery Rs. 4 crores. Some Cogen replacement. The CAPEX as a total it was only 59% of the depreciation. This is very important for us in terms of managing our cash flow and also paying the dividend during the year. We continue to be very prudent in our investments of CAPEX in the current year also and we are investing only in high return investments and for statutory, safety and Environment purposes.

As far as expenses are concerned, we continue to have very tight control on the fixed cost. Fixed cost during the year increased marginally in spite of the inflation.

As far as the loans and interest cost is concerned, I have been sharing for quite some time the previous quarter we have focused very much in reducing the loans. The long-term loans have come down to Rs. 457 crores from Rs. 586 crores which is a reduction of about Rs. 129 crores compared to the last year. Similarly, short term loan also come down to Rs. 373 crores from Rs. 432 crores which is a reduction of Rs. 59 crores.

The finance cost almost remains same as last year at Rs. 113 crores due to higher working capital requirement due to controlled sales as per the release order mechanism in comparison to the last year and also lower sales realization.

Our story on the loans and interest will continue and we are very much focused to reduce the loans and interest on a continuous basis.

Manish Agarwal: Could you share the outlook for the cane availability next year and what will be the kind of recovery range you are expecting?

S. Suresh: We have mentioned in the press release also Tamil Nadu continues to have a similar drought condition like last year. In Karnataka and Andhra for the last year, the water availability is not that great. So, the best I am looking is that it is similar to the sugar season whatever last year we had. We will be able to give a projection based on how the monsoon is going to settle South West. Based on the monsoon only, we will get to know the yield numbers. However, we are also seeing some portions of Karnataka where the planting is not to the extent has happened in the previous year because of water challenges in those areas, but overall we expect the volumes to be in line with the previous year.

Manish Agarwal: what is the average cost of production for us currently in sugar segment?

S. Suresh: Rs.32.5/ Kg to Rs.33/ Kg.

HR Gala: We had estimated about 40.5 lakhs and I think we did something around 37 lakhs only. So, next year you are expecting around same 37 lakhs or can there be any increase in that?

S. Suresh: It is depending on how the monsoon is going to pan out. If monsoon is going to be good the yields can be better. So, but it will be a bit difficult to say whether a 10% jump will happen at this point of time. We are expecting something similar to the last year because Northern Karnataka, Maharashtra, some places have drought which has already been reported. So, we will have to wait for how the monsoon is going to come.

HR Gala: The previous season crushing is totally over or it is continuing in some parts because some time I think it continues till May end?

Ramesh Kumar: Only in UP it is there, whereas in Karnataka it is completed now.

HR Gala: Everything is over. Now sir coming to the question of Nutraceuticals, I think that particular business is not doing well for quite some time. What are the basic issues now you said about Spirulina the price was down and volume was also down so what is happening on that sir?

Ramesh Kumar: It is mainly because of Chinese players entered the market and they reduced the price very drastically. That is one of the reasons why Spirulina sales went down, that too they entered into the Indian market where we had higher market share. However, this year our outlook is good for Spirulina coming year where we are also aggressively positioning our products against the Chinese players also, we are entering into Europe in a bigger way where we would like to grab more market share.

HR Gala: On the Synthite project can you tell us what kind of investment that JV will be making? how much investment that JV will be making and how much we will be contributing equity towards that?

Ramesh Kumar: Total investment in the entire project will be around Rs. 40 crores. It is a JV.

HR Gala: CAPEX of Rs. 40 crores, so equity contribution from our side?

S. Suresh: Loan is Rs. 20 crores, balance is equity.

HR Gala: So, it is half-half. And what can be the turnover potential. I think we will be starting from June 2019 as we said in last call?

Ramesh Kumar: As our production is now stabilizing in the intermediate plants and the new plant will be commercialized during the second half this year and based on which we will be able to tell you at the end of this year where we will position ourselves in this product.

HR Gala: Will the turnover come only from 2021 onwards? And what kind of EBITDA margin it will be?

Ramesh Kumar: As the operations are starting from the second half only, the turnover will come at the end of the year; However, I can give you an estimate for the next year onwards during the last quarter of this year..

HR Gala: I understand. Now, coming to this our plan to invest about Rs. 250 crores in distillery, I believe that also includes ethanol also?

S. Suresh: See we had planned about Rs. 250 crores in the total plan for the distillery investment as per the Government's ethanol blending program. We were thinking of putting in Sankili, Haliyal, Nellikuppam and Bagalkot. These are the four places we were looking for Ethanol program, Already the work has started in Sankili which is only more for environmental handling using the incineration boiler. Other 3 investments are supposed to be expansion will be decided based on the Molasses availability and environmental challenges/clearances.

Overall as a country the molasses availability is going to be a challenge because there are going to be a lot of north based distilleries who are going to secure the molasses and continue to run the ethanol. Very less of molasses is available from UP for sale today. So, the outlook for cane is also not in a very big growth path. I am talking about almost similar to the last year. If I have to run additional distilleries, I need to have additional quantity of molasses. You can always import and run but there should be availability on a sustained basis.

We are not seeing that for the next twelve months, we have put those projects on hold as we have done detailed project engineering but we are not going ahead with other projects Unless we have a visibility in terms of the molasses availability and also availability at the target prices, we will not be starting those projects. It is better to wait and watch and then go for this investment rather than plunging into it.

HR Gala: What will be our total CAPEX plan for FY20?

S. Suresh: Similar to the last year of around Rs. 40 to Rs. 50 crores.

HR Gala: Rs. 40 to Rs. 50 crores, and that will not include anything on this distillery?

S. Suresh: Yes.

HR Gala: But distillery even one phase or something we will be able to start based on our visibility or availability of molasses? What I mean to say that some of the projects you have kept on hold, for distillery but some of the projects which were you have already gone ahead and trying to obtain the environmental and other clearances. So, do you think that partial implementation could be there?

S. Suresh: No, it may not be because these are all high value projects, we will equip ourselves and be ready in terms of all this but we are also planning to extend the number of working days wherever possible thereby we will try and produce more quantum of alcohol. That is what we are trying but in terms of partial investment may not be a feasibility either you go full or you will not go because the ticket sizes are close to Rs. 70- Rs.80 crores. We cannot go for a partial expansion and all.

Ritika Agarwal: Sir, any update if you could give on the compressed bio gas plant that your company was evaluating for utilizing its press muds?

S. Suresh: We are doing the market survey because there are lots of people who are having those solutions but we need to work on a right type of model for us. The compressed bio gas we have to look at only from the production end, another is from the marketing end. People who are going to buy from us need to find the market for that and that has to be closer to the point where we are producing.

For example, if we are producing in Nellikuppam then they should find the end consumer in a shortest radius from the plant, then only it will be viable for them as well. So, we have explained the availability of this material from which we can produce the compressed bio gas to the prospective vendors. They are working on their side in terms of how are we going to evacuate those outputs and put it in the market and sell. Once we get a clarity on that then we will start looking at putting money behind this compressed bio gas.

Ritika Agarwal: Is it not that the government has a compulsory off take of the compressed bio gas?

S. Suresh: No, there is no compulsory off take , it has to be mutually agreed between the sugar mill and the marketer. So, ultimately someone has to buy it for the compulsory off take to become a reality. So, they have to find the prospective consumer once that happens the projects can be rolled out.

Ritika Agarwal: Right, and who are the vendors in the market for the same?

S. Suresh: I think last time also we spoke Indian Oil , Shell people are talking to us, PPCL also doing some work on that, lot of people are there. We have not yet finalized on any one of these.

Ritika Agarwal: Okay and on this ethanol thing that the government has been pushing since quite some time now, so what in your sense is the current ethanol capacity in India right now and how it has moved? Are we seeing on ground implementation of blending ratio to be increased to probably 7% by this year end and then 10% and then 15%? What are the challenges in the same?

S. Suresh: I think whatever volumes which have been given for bidding has been grabbed by them. So, that shows that out of the total OMCs are finalized close to around 2,600 million liters for the ethanol supply for the year 2018-19. The total requirement has been around 3,300 million liters. So, out of this almost 2,400 million liters has been executed till 1st April.

So, average blending what they are reporting is around 6.1%. As you go forward if you ask me the rate will go up and what is the percentage of blending in the future years, most of the things will depend upon how much of molasses are available in the country in production and hence the molasses availability accordingly the blending and how much of blending government is pushing so that the sugar price also parallelly is taken into account and they decide this blending.

More and more of blending happens, it is better for the sugar because there is going to be less of sugar production in the country thereby the surplus situation also will be maneuvered. As I understand next sugar year, we are expecting close to around 2 million tons sugar equivalent to flow into ethanol blending.

This year it was somewhere around 0.3 million tons to 0.4 million tons of sugar equivalent going into the ethanol blending. Next year we are almost going to go to almost 2 million tons of sugar equivalent. Post that we have to wait and see on the government policy on how much they are going to sustain in terms of ethanol blending, if more and more goes into ethanol it is better for the sugar.

Ritika Agarwal: So, you said 3,300 million liters of ethanol was tendered by the OMCs but 2,600 million tons was as of now has been given by the sugar mills to the OMCs, is that correct? And beyond this 2,600 million tons would we need an additional capacity to come up in terms of ethanol or how will it be?

S. Suresh: Actually if you recollect, last year itself around October government has sanctioned close to 114 distilleries with some special investments for your ethanol capacity expansion, environmental management etcetera so those projects have to come on to the operational stage. That should add additional volume for the ethanol blending.

So, this gap can be easily filled up because projects are under construction, once they go on stream, it should have the sufficient quantity for ethanol blending. There is also talks that there is going to be another set of approvals which are going to come for ethanol blending proposals.

Ritika Agarwal: And out of those 114 that you just talked about how much has been on ground implementation out of those 114 have been if you have any idea on the same?

S. Suresh: I do not have any idea as of now because we have to see each and every plant whether they are going ahead with their proposal or not. As of now I have talked about E.I.D. stand. So, we are spending close to around Rs. 27 crores for one of the plants.

Ritika Garg: Can I have the cash from operations for FY19?

Ramesh Kumar: It is Rs. 34.81 crores.

Ritika Garg: Okay and I wanted to know are we planning some sale of non-core assets for FY 2019-20?

Ramesh Kumar: Yeah, there will be some of the assets very marginal assets, we will be retiring it.

Ritika Garg: Okay and did we sell any non-core assets in FY19?

Ramesh Kumar: Bio you are talking?

Ritika Garg: Okay only the bio business?

Ramesh Kumar: Yeah bio hived off in April.

Ritika Garg: Okay and so in Tamil Nadu what was the capacity utilization?

S. Suresh: If you look at all the plants it will be not be more than 30% to 40% because Nellikuppam is the only plant where we are having some good amount of cane. We had crushed close to around 12 lakhs tons last year. Out of the overall capacity or even the peak crush was almost 30 lakhs tons. So, Tamil Nadu our units can crush close to 35 to 40 lakhs tons. That means you are talking about somewhere around 30% is the utilization as of now.

Ritika Garg: The distillery we said we put the brown field on hold so the green field would be how much and when would it come on stream?

S. Suresh: We said new distillery is in Bagalkot we talked about, the expansion and all is on the Haliyal and Nellikuppam so all these proposals are on hold.

Ritika Garg: Correct. And what about Sankili?

S. Suresh: Sankili as I said it is on environmental management. Already the project is getting action and it should be implemented by the end of this financial year.

Ritika Garg: how much would the CAPEX for Sankili be?

S. Suresh: Capex is around Rs. 27 crores.

Ritika Garg: Okay and could you tell us about the performance for Parry Sugar for FY19 and this outlook for FY20?

Ramesh Kumar: Operational revenue for the financial year 2018-19 is Rs. 1,434 crores against the previous year of Rs. 2,418 crores and for the quarter it is Rs. 479 crores against previous year quarter of Rs. 535 crores. The PBT for the year is around loss of Rs. 89 crores as against the previous year loss of Rs. 76 crores.

Ritika Garg: Okay so when do we see the Parry Sugar becoming profitable?

Ramesh Kumar: We expect to turn around during FY 2019-20.

Ritika Garg: Okay and why was Parry Sugar's revenue so low in FY19?

Ramesh Kumar: Prices have gone down during 2018-19 as low as 9.6.

Ritika Garg: Okay and so what was the volume comparatively in FY19 versus FY18?

Suresh Kannan: Thanks for the question. The sales volume for Parry Sugar Refinery for the year 2018-19 was around 5.3 lakhs tons as against the corresponding volume of 6.7 lakhs tons in the previous year. In terms of the other question that you asked with respect to the drop in the sales revenues there has been drastic reduction in the sugar prices internationally in FY19 compared to FY18. The drop on an average year-on-year basis is to the extent of around 30%. So, that has been a big contributor for the reduction in revenue on a year-on-year basis.

Ritika Garg: Okay. And during the year have you increased capacity in Parry Sugar?

Suresh Kannan: In Parry Sugar Refinery our endeavor is to improve the efficiency of operations. So, as a result of which in this existing asset base we have been able to debottleneck and increase our throughput both to become more competitive in this difficult environment of spreads, and therefore our availability of sugar throughput through the refinery have also increased during FY19.

Ritika Garg: Okay so how much is the increase in capacity like what is our current capacity in Parry Sugar tons per day like?

Suresh Kannan: Our melting capacity is 2,800 tons per day and the increase when compared to last year we were melting at the rate of around 2,200 tons to 2,300 tons per day.

Ritika Garg: Okay. And the Rs. 70 crores investment that we had taken board approval for?

Ramesh Kumar: Rs. 70 crores is for the infusion into Parry Sugars this year.

Ritika Garg: Okay yes but what is it for exactly for support the business for its losses?

Ramesh Kumar: No, it is to support the business both for the losses as well as repayment of long-term loans and all other things.

Suresh Kannan: Actually, Parry Sugar Refinery business is at the cusp of the turnaround as Ramesh Kumar explained though the year as a whole has posted a negative performance. If you look at the last two consecutive quarters, we have posted PBT on both quarters to the extent of Rs. 17 crores and then succeeding quarter of Rs. 28 crores. So, as we foresee going forward, we look at the possibility of the margins for refining improving as we go forward into financial year FY20 so as we are in the cusp of the turnaround the parent has been supportive to the refinery in terms of adequate funding so we are in a position to continue our recovery journey.

Ritika Garg: What has been the trigger for this turnaround, is it market forces or is it something that we have done differently?

Ramesh Kumar: Principally the lever of turnaround has been the improvement of our internal efficiencies. So, in FY19 at the exit level our cost of refining has come down to the extent of 20% over the entry level of FY19 so that we do not expect a drastic improvement in the market sentiment in terms of spreads going up substantially but we are learning to live within the small recovery in the spread by improving our internal efficiencies which is more sustainable and as the spreads recover we will stand more to gain than the other refineries.

Ritika Garg: What are the current spreads?

Suresh Kannan: The spreads in the market are in the region of around $40.

Ritika Garg: $40 and what were they in the exit quarter of FY18?

Suresh Kannan: FY18 we were at the region of around $55 to $60 per ton.

Ritwik Sheth: Just a couple of questions. In the notes to the accounts you have mentioned that one time settlement amount so what is that one time settlement amount for the quarter?

S. Suresh: It is pertaining to 2017-18?

Ritwik Sheth: Yeah, 2013 to 2017, what is the amount?

S. Suresh: Rs. 87 crores. It was settled during 2017-18 itself. For comparison purpose we have shown that data there in the notes.

Ritwik Sheth: And so what is the inventory that we are carrying I missed that figure?

Ramesh Kumar: 2.70 lakhs metric tons, I mentioned during the presentation.

Ritwik Sheth: And gross debt amount?

Ramesh Kumar: Long term is 457 and short term is 373.

Ritwik Sheth: And what is the current portion of long-term debt in the other current liability segment in standalone? Current portion of long-term debt which is standing on other current liabilities other financial liabilities is Rs. 988 crores on the standalone balance sheet?

Ramesh Kumar: The current portion of long-term portion in the other liabilities is Rs. 105 Crores.

Dipen Shah: I had a question on the exports. This year the export will probably be about 2 million tons, 2.5 million tons that is what the understanding is. But given the shortfall in the global market expected next year, do you think that exports will go up to about 5 million tons to 6 million tons in the next year?

S. Suresh: I think the exports from India will be a function of the international price. If the prices are going to be favorable then the export volumes can go up. And it also depends on whether the government is going to extend the export subsidies beyond the sugar year 2018-.19. Currently the export subsidies are going to close by September 30th. If that much volume has to happen, one is international prices have to be far better than what it is today, second is government should extend those subsidies for the sugar season 2019-20 as well.

Dipen Shah: Okay but the current year the export quota is not expected to be met the 5 million tons quota?

S. Suresh: It should be closing somewhere around 2.8 million tons to 3 million tons.

Dipen Shah: Okay and what would be the major reason why companies have not been exporting because there is Rs. 8 subsidy and it is kind of the net realization is almost similar to the domestic realization?

S. Suresh: If you look at the current price of international raw it is around $278. But we add that whatever is transport and other things it is around $295. $295x$70 gives you only Rs. 20. We had an export subsidy of Rs. 8, it is Rs. 28. When they can sell at Rs. 31 in the domestic market why will somebody go and export at Rs. 28. And that money is not going to come immediately. Subsidy amount will come after almost one, one-and-a-half years so for better cash flow better to do the sale in the domestic market. And they will book a loss of Rs. 3 to Rs. 4 first.

Dipen Shah: So, where I was coming from is that if next year there is a global shortage, and if the prices go up, then obviously India has an excess sugar of about 14 million tons to actually start exporting and hence the surplus in the domestic market could reduce a bit?

S. Suresh: Absolutely. What your saying is 100% right. The moment the markets sense the deficit, and deficit on a sustained basis, automatically the demand for the sugar will go up, prices will rise. That will be an opportunity for Indian millers to go and price themselves. Thereby they will be able to export but only thing is even if the market goes up to let us say $0.13 or $0.14 internationally, even then the subsidy is required to cross your Rs. 31. It will not happen. But what you say is right. That is the logical direction.

Ritika Agarwal: CBG opportunity did you mean that the company has evaluated the project but the OMCs are not able to find a buyer for this CBG. Is that a correct understanding?

S. Suresh: No, actually this is an exploratory phase. We have some materials based on which we can make the CBG. There is a technology available and we can make CBG but that CBG you have to evacuate the CBG on a regular basis and sell it in the market. So, it will be similar to the bullets. They have to take the CBG in those cylinders and they have to be retailed in the market. So, then they have to find places where they will go and sell all this. Customers have to come frequently and then consume this CBG. Then only there will be continuous production evacuation selling in the market.

So, they are also working out which is the right place for them and it has to be economically viable because the rate for CBG has been fixed Rs. 46 per kg. So, that means the mills will get somewhere around Rs. 40 per kg after all this transport and other things. All these things have to get materialized in the form of demand so the OMCs and other people they are evaluating these potential demands on the other side. Once that is firmed up we will have to sit with them and discuss about the other commercials.

Ritika Agarwal: Okay so we are seeing a lag from the OMCs or?

S. Suresh: No, people have to work. This is a new business we are getting and we have to explore the demand first. We will explore the demand and come back. Once they are comfortable only they can evacuate the quantity. Just because I am carrying huge CBGs somebody need not have to take it. It is not dumping so much of CBG in the market in one place. We have to also get some realization.

Ritika Agarwal: The entire distribution chain has to be developed. And so in terms of vendors of these CBG plants any idea on those sense?

S. Suresh: No, as of now we are only exploring because they have to show their market. They have to show the technical capability who is going to provide the technical services. Then only we will be able to comment on that.

Ritika Agarwal: And in terms of ROE would you say this as a sustainable viable product?

S. Suresh: At present on paper it definitely looks to be a viable proposition because government is expecting to support this initiative in a big way. As I was mentioning last time, I think Indian

Oil alone government is looking at around 5,000 plants across the country over the next three years. That is a vision they are carrying. That means they are doing it in a big way and unless there is sustainability no one is going to put their money behind it. Something similar to the ethanol program. So, if the government is committed to it, I think it should be made sustainable.

Ritika Agarwal: But sir we saw the announcement on 1st of October 2018 but no plans or no on ground implementation we see even after six, seven, eight months. So, what is your view on this opportunity or the government's initiative?

S. Suresh: As I said this is an exploratory phase because I have also attended two, three conferences. They are trying to market this concept to all the sugar mills. People have to understand it. It is not a plug and play. People have to see because all the sugar mills are in a stressed condition. They have to see a real opportunity before we put the money in.

You put the money in and then wait for evacuation to happen it is a big drain. So, we want to be doubly sure before we because the moment we start producing I want all the 100% to be evacuated. You cannot be operating the plant at lower utilization level. Once we reach that condition then we will go ahead with the implementation of the project.

Ritika Agarwal: Right, and in your view when do we expect some clarity to come through?

S. Suresh: I would like to answer this question. The moment we get the clarity in the next call we will be coming back to you.

S. Suresh: Thank you everyone for taking your time out. It has been a pleasure interacting with all of you and thanks for the lovely questions. See you in the next quarter.