"EID Parry Q1 FY 2016 Results Conference Call"

August 5, 2015

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Moderator: Ladies and gentlemen, good day and welcome to the EID Parry Q1 FY 2016 Results Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara. Thank you and over to you Sir!

Kashyap Pujara: Good morning folks and thank you for standing by. It is a great pleasure to have with us the management of EID Parry. From the management side, we are represented by Mr. Ramesh, who is the Managing Director and Mr. Suri, who is the CFO. Without taking too much time, I now hand over the floor to Mr. Ramesh for his opening comments. Over to you Sir!

V. Ramesh: Thank you Kashyap. This is Ramesh here and it is nice to connect up again after the Q1 results that were released yesterday. By now, you would have realized that sugar business in India is going through extremely challenging times and it was no exception to EID Parry. It was probably one of the most challenging quarters in recent history of EID Parry. On an average, the sugar prices dropped by 13% in Q1 over Q4 of last year and it had a significant impact in terms of the results. My colleague Mr. Suri will share the financials with you but in addition to the fact that we had lowest sales realizations in Q1 we also had to write down our stocks to reflect the market values as of June 30. Consequently the numbers that you see the sugar business actually recorded an operating loss at PBIT level of about 90 Crores is largely on account of this factor. Going forward we see challenging times and we have made numerous representations through ISMA to the Government. We are looking at three important areas on which the Government actually needs to intervene. The first area is Exports. Exports is going to be very critical because of the fact you will be aware that for the current sugar year 2014-15 production is in excess of 28 million tonnes. In fact it is estimated about 28.3 million tonnes as against the consumption of about 24.5 million tonnes and there is not much of a difference as we see even the sugar year 2015-2016, production could be marginally lower and consumption could be markedly higher but the fact is there may be a surplus of at least around 3 million tonnes. The only way that this can be corrected is for sugar to physically move out of the country and therefore export is priority number one. As of now, given the fact that our sugarcane prices are the highest or amongst the highest in the world, there is no way in which we can compete in the international market unless this is backed up by an export subsidy or an incentive from the government. The second matter on which we have been pursuing with the Government is bringing in linkage of cane prices to sugar. We are not very sure as what the government will actually mandate going forward for the year 2015-16 and the third is in terms of increased Ethanol blending. As of now Ethanol blending with petrol is about 3% but this can be pushed up very significantly and this can actually also help may be in reduction of sugar available in terms of sale within the country. So we expect that the government will come out with announcement on all or some of these by end September 2015 before the new sugar year commences on the October 1. So overall is going to be very challenging times for the sugar business for the current year. With respect to our 100% subsidiary, Silkroad, now called as Parry Sugar Refinery, this was again a quarter where we started productions around 3rd week of May and we are now stabilized at the production levels of about 1500 tonnes per day approximately and we hope to continue the plant running without any break for the next nine months. As far as the first quarter is concerned, the results are not very good but going forward we expect a very substantial improvement in terms of overall profitability because we have been able to lock the spread between the raws and the whites and what we need to sell over the next nine months. Consequently you should definitely see improved results in Silkroad going forward. So with these few preliminary comments, I will hand it over to Suri to take you through the financials and maybe some of the other points that you have we can actually discuss as part of the Q&A. Over now to Suri!

V. Suri: Thank you very much Ramesh. Very good morning to all of you. I am also very happy to be a part of this analyst call to answer all the questions and clarifications from your side. To start with, as Mr. Ramesh is saying that it is very difficult quarter. Primarily the price of the sugar has been the single most factor which affected the profitability through the quarter. Now I will share with you some operating parameters, which will give you guidance on what has happened during the quarter one.

Overall, we crushed about 8.3 lakhs tonnes of Sugar Cane about 4% better than the last corresponding quarter. The sugar recovery from Sugarcane was better by about 0.4% to at around 9.8 correspondingly to about 9.4 last quarter. We sold about 1.3 lakhs tonnes of sugar cane ; it has come down by about 20% over the last year in terms of the overall sales. The most important factor is that actually the realizations. The realizations came from an average about Rs.30 per kg to about Rs.24 per kg, so this is the 20% drop in value between the two quarters comparison.

The price in the month of July now in August has now reached a six-year low. So it is now hovering around Rs. 20/ Rs. 21 levels around the country but we had a better realizations during quarter one because we also have sold value added products to institutions and retail. Our average realization was around Rs.24 per Kg and we also carried a stock of about 3 lakhs MT by end of June.

The good story is actually the power generation. We were able to generate about 17.7 Crores units against last year of 8.0, we have doubled our power generations primarily because we ran the Tamil Nadu Cogen plants with coal throughout the quarter. Three of the plants were running with bagasse during the season and with coal rest of the season. It is very good news and we also correspondingly exported much higher units to about 13 Crores against 5.4 Crores last quarter and Cogen has been a very good story for the quarter. The alcohol production was higher for the quarter at 66 lakhs liters which is better than the last year but however we sold lesser alcohol primarily in Tamil Nadu because of the imposition of VAT in Tamilnadu. Alcohol is coming from Karnataka and Andhra Pradesh are the much cheaper in price because of this VAT factor, but the selling price of alcohol we are able to maintain at around Rs.42 per litre. This is all about the overall operating parameters.

As far so Bio Nutra is concerned we had a very good quarter in a consolidated level. We are able to increase our sales to 83 Crores during the quarter with both businesses, which is about 34% increase, last quarter last year was about 62 Crores. The primary factor which swung the sales was due to very good performance from our international subsidiary Valensa, which also turned around in terms of profits. We had a profit of about nearly 4 Crores for the quarter against last year's loss of 5 Crores. So there was a very good improvement, a swing of 9 Crores between the two quarters. Now, at the overall company level, we have frozen our capex. We do not spend anything now except essential and statutory capex. We are also spending some money to expand our Nutra business, which will help us to improve our profitability better.

With the huge cost reduction drive we were able to reduce the cost by about 14 Crores with the corresponding some 85 Crores last year to about 71 Crores this year. So we are very conscious about the cost as the big factor and this has helped to better our performance in a very, very difficult time. During the quarter, we also merged to Parry Phytoremedies with EID Parry. The results of the quarter includes the results that of Parry Phytoremedies. The impact of Parry Phytoremedies on the profit is only about Rs. 40 lakhs. So there is no major impact in the figures and are by and large comparable. We also had a tight control on our borrowings. We reduced our interest cost if you see the result is about by 1 Crore in spite of the losses on the stocks we carried and we were able to raise short-term capital at the lower rates much better than the previous quarter and overall interest rate on borrowings is on the lower side.

So the overall results is primarily affected by the lower sugar price. The stock which we carried as on March 31, which were sold during the quarter the impact of that were about 10 Crores. So that is the one big factor, which has affected. As the quarter progress especially in the month of June there is a lot of dip in the sugar price and this single factor of the stock valuation from the beginning of the quarter to end of the quarter alone is about Rs.50 Crores. So these are the overall numbers as far as the hovering standalone numbers are concerned. So with that I actually request further questions on whatever we shared.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Good morning Sir. Thank you for the opportunity. I wanted to understand you said the impact of stocks which you carried on March 31 and sold during the quarter was 50 Crores, is it on the sales volume or it includes ….

V. Suri: The sales from the stock which carried at the beginning of the quarter.

V. Ramesh: I will just clarify, what we have done is between the rates at which we valued our stocks on March 31 and the rates at which we have valued as of June 30 we have brought down the stock value by about 50 Crores. So what it means is that we carried approximately about 3 lakhs tonnes as of June 30. We have written down our stock value by about Rs.1700 per tonne, which is 50

Crores. So the loss of 90 Crores that actually has been reported is after absorbing a stock devaluation of 50 Crores.

Achal Lohade: So in other words if I have to say out of 100 Crores of EBIT loss 50 Crores is purely on the inventory right now. There will be another 15 odd Crores because of the realized loss.

V. Suri: It is about 10 Crores actually.

V. Ramesh: Basically let me interpret it a bit differently for you. 50 Crores is the stock reduction devaluation, 10 Crores is approximately the loss that we realized on sales out of opening stocks and during the quarter we produced approximately about 80,000 tonnes or 81,000 tonnes of sugar, which we have valued at lower value which actually therefore took up the total loss on sugar to about 108 Crores. The Distillery and the Cogen made a profit of around 17 or 18 Crores and therefore the operating loss is 90 Crores.

Achal Lohade: Sir if I look at the EBIT per unit of power or EBIT per liter of alcohol it appears reasonably low as compared to the peers, wanted to understand because realizations of by and large comparable to other companies, how come …

V. Ramesh: See the thing is we have an internal transfer pricing system by which the bagasse which is transferred from the sugar to the Cogen plants and the molasses that is actually transferred from the sugar to the distillery is done at market prices.

Achal Lohade: What would be the market price broadly if we could keep that range Sir?

V. Ramesh: As far as the bagasse is concerned, the bagasse transfer price is around Rs.1900 per tonne and the molasses will be at Rs.4500 a tonne.

Achal Lohade: Is it remain stable?

V. Ramesh: Largely it is stable. The thing is we do actually do some sales of bagasse on a regular basis from few of our plants. So what we normally do is therefore the thing is we look at the rates at which we have sold the bagasse during the quarter and accordingly do the transfer pricing for the quarter. Similarly in respect of molasses we actually buy out molasses and we also sell molasses. I mean there are some plants where we actually sell and there are few plants where we could buy from the open market. So basically what we do is we ensure that the rate at which the molasses and the bagasse are transferred are basically done at market rate.

V. Suri: One more thing which I wanted to tell is that the EBIT is also better because we realized better rates in terms of the power and selling to the grid at a much higher price as we exited PPA in Tamil Nadu. So that is also a reason Cogen EBIT is actually better.

Achal Lohade: Would the EBIT be negatively impacted because of the coal the profitability of coal power?

V. Ramesh: Currently as far as the coal price is concerned, we are importing coal from Indonesia and the coal prices actually have come down. Consequently it makes sense to actually generate power during the off season with coal, although obviously as compared to bagasse the coal rates are significantly higher nevertheless there is a variable contribution and therefore it is worthwhile running the Cogens even during the off season with coal.

Achal Lohade: When you talked about the numbers Sir, the sales number or the realization, you talked about the Y-O-Y quarter right 1Q FY'15 and 1Q.

V. Ramesh: Yes we were talking comparing Q1 versus Q1.

Achal Lohade: Just last question if I look at the raw material schedule in the annual report I see the other raw material in the range of 200 to 240 Crores, I am just wondering what are these raw materials. Is it that you have segregated our allocated the cane cost to Distillery and Cogen from the raw material itself?

V. Ramesh: It is quite possible. As far as the cane cost is concerned, it is accounted separately but as far as the Bio and the Nutra business is concerned it will actually come into the head of raw material. Unlike Bio and Nutra the entire quantity of raw material cost gets reported under that head. Also it would include the molasses that we have purchased from the open market.

Achal Lohade: Fair points Sir, why am I asking because the revenues are almost 50% of the raw material cost or to put it in other words the raw material the others which is about 200 to 250 Crores is double up the revenues of the bio products. I am just trying to figure out if you have shown the bagasse and molasses transfer as part of the raw material cost.

V. Ramesh: Yes, definitely as far as the bagasse and the molasses which have been tracked, actually will get cancelled out but the molasses that we have purchased will actually be included. The thing is between Cogen and the distillery any bagasse transport will be netted off will get averaged out and therefore it will not be reported under the head of sales or other income because it is not being sold to third party. So accordingly it gets cancelled out in terms of financial reporting.

Achal Lohade: Just to summarize the raw material is the external raw material purchase and there is no internal raw material purchase….

V. Suri: No it is all external only whatever you purchase in the market including canes, molasses and raw materials for the Bio Nutra also.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P.: Thank you for taking my question. Sir what I would like to understand is taking cues from your opening remarks given the fact there is already about 9 to 10 million excess inventory in the sugar sales. If there is another going to be a 2 million tonnes of excess inventory so how do we see the sales and pricing over the next couple of years and second is can you also throw some light with respect to I mean you had given the average realizations but what would be the average cost of procurement I mean what is the cost I mean the cane cost for the quarter.

V. Ramesh: You asked multiple questions, let me take them one by one. Clearly as far as the biggest requirement that is required to ensure the stocks come down is basically for materials or sugar to physically move out of the country. So it is very important that the government gives an incentive which is also WTO compatible because that is very critical and therefore we have made quite a few suggestions to the Government. We understand the Government is actually considering this and they could actually come out either just a subsidy or they can even come out with compulsory export. So there are different options that the Government has, so basically if today exports do not happen then I think the country is likely to see serious trouble because you are aware that as far as the cane arrears are concerned it is as high as about 20,000 Crores, which means unlike EID Parry, some of the mills have done is that they have not paid the full FRC to the cane farmers and therefore with 20,000 Crores of unpaid cane arrears, it is not going to be sustainable and therefore the government will have no option but to come out with certain policy announcements to ensure that the farmers' arrears are actually addressed and this can actually happen in the next sugar year only if few things happen. One is in terms of exports, secondly in terms of greater linkage of cane prices to sugar and the third is increased incorporation of Ethanol in petrol. In fact all the three will be required. If today we are going to see any improvement in terms of either reduction of cane arrear or a smooth sugar year 2015-2016. In terms of the other question that you raised was on…,

Sudarshan P.: The procurement cost of sugarcane.

V. Ramesh: As far as the procurement cost is concerned for the current sugar year we have in Karnataka we are paying FRP. The FRP for the current year sugar year was Rs.2200 a tonne at 9.5% recovery and we are paying in Karnataka we are paying FRP so what it means to get an idea of cane cost 2200 divided by 9.5 you will actually get the cane cost and you will realize at this moment the sugar prices are ruling and even less than the cane cost. As far as Andhra is concerned we are paying slightly marginal more the FRP and as far as Tamil Nadu is concerned we are paying Rs.2300 per tonne plus transport, which works out to about Rs.2450 per tonne of cane. However going forward clearly these are not sustainable and therefore the government pronouncements for the next year in terms of sugarcane pricing are very being eagerly awaited.

Sudarshan P.: If you are assuming, if you are counting on exports at this juncture I mean today we are competing with Brazil and Thailand, given the depreciation in their currencies would not it make it very unviable for Indian produces to do it or do you think the government will have to provide it?

V. Ramesh: There is no option, as I said actually at the very beginning Indian sugar is uncompetitive in the export market because of high sugarcane prices and therefore this is artificially fixed sugarcane prices. Unlike Brazil where it is a free market and unlike Thailand where they have differential prices for differential customers for domestic exports and so on, there is no such practice in India. So essentially the thing is what we believe is that some rationalization has to happen in 2015-2016, so if export is going to happen we can happen only with the subsidy or incentives given by the government.

Moderator: Thank you. The next question is from the line of Kashyap Pujara. Please go ahead.

Kashyap Pujara: Just to understand more on the current situation that we are facing in the industry, I mean, in case let us take that is exports are not permitted and if the situation continues as it is, how would we come out of this current conundrum that we face, would we be open to stop crushing?

V. Ramesh: As far as the sugar mills are concerned, I think through the Indian Sugar Mills Association has already informed various governmental bodies both at the center and the states that it would not be in a position to commence crushing in the new sugar year 2015-2016. So things have clearly come to our head and obviously if today if there is no export, there is no export incentive and also the thing is that FRP is going to continue at Rs.2300 per tonne which is what the government has announced earlier.

Kashyap Pujara: So essentially I mean from a EID perspective it is fair to assume that if that relaxation or whatever export subsidy etc does not come through for us then we will basically be refusing farmers to take in?

V. Ramesh: No, in reality actually what will happen, we will have to speak to our farmer. As far as EID Parry must be concerned has no arrears as such to the cane farmers and it is probably amongst a very few companies in the country which does not have any cane arrear. So what we will have to do is probably we will have to sit around. The farmers already have got the sugarcane on the field therefore we will have to sit down with them and agree a pricing formula for the year 2015-2016 and therefore that is the only way forward if there is no governmental intervention.

Kashyap Pujara: The thing is that obviously EID has a good corporate practice and we do not have arrears but in a sense it is also defeating in purpose because when we are paying at the market pricing which the farmers want and we do not have any arrears, we are indirectly incentivizing the farmers to continue producing the cane and we know that as soon as you take the production in our books we are definitely going to be mark-to-market lower because the business is not viable in the current situation and the farmer because he keeps getting money, he continues to produce. So the cycle does not self-adjust which used to be there in the previous cycle. At least the cycle used to self-adjust. This time it is not adjusting. So essentially communicating the farmers that we would not be taking cane at the current price going forward if so and so situations do not materialize, how do we get out of it basically is the key question to basically understand EID going forward.

V. Ramesh: We have been telling the farmers for example Tamil Nadu has got a special season. Tamil Nadu and south Karnataka mills alone in India have a special season where we actually run our sugar mills also during the month of July, August and September. So as far as this quarter is concerned, we have called the farmers and said even though it is unsustainable we are actually going ahead and paying a figure of Rs.2300 per tonne in Tamil Nadu plus transport because we have already committed to the price at the beginning of the sugar year and therefore we do not want to go back in terms of our commitment but going forward it is going to be very difficult. So the farmers are well aware of the fact and they also will see the kind of losses that we have actually reported in Q1 and Q2 also obviously with this kind of a situation with no support from the government you will see actually further losses. So essentially to summarize what it means the farmers are well aware of the fact that if the sugar prices continue as it is there is export going out of the country and you are going to have surplus on sugar they are not going to get the kind of FRPs actually as announced and therefore it will have to mean discussions between the mills and the farmers in terms is the way forward but the government will do something. We understand that the PM did have a meeting on the August 1 with the government officials; the matter has gone quite high within the government levels and something should happen definitely by September.

Kashyap Pujara: Around you in the region that we are in, are we seeing other millers also taking the stands that you are not going to be taking cane to crush. Basically are we seeing some units here and there getting shut?

V. Ramesh: I should not comment about other mills. I should talk only about EID Parry but basically there are two ways in which today the other mills are managing the situation. If you take the mills in Karnataka and Maharashtra they have not paid for the full FRP for the year 2014-2015, so arrears are there. Now in Tamil Nadu basically is being managed by delayed payment. So let us say while we are required to make the payment within a particular period so that is not actually happening. So essentially the other mills are managing their cash based on rotation and that is basically by whatever money realized on sale of sugar is being utilized to make the cane payment. So different companies are managing their cash differently.

Moderator: The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thank you for the opportunity once again Sir. Can you tell me what would be the current export realization in our view at our location?

V. Ramesh: As far as the export is concerned, let us say to give you an idea of what is the market at which raw are selling. It is fluctuating on a day-to-day basis but it is around $275 per tonne. So 275 x 64 will tell you it is about Rs.17,600. The government has extended an incentive of Rs.4000 per tonne and this is valid only for export done till the September 30. So overall the realization that any mill will get is about Rs.21,600 FOB. So let us say on an average you are going to incur an expenditure for transportation of sugar from your mill to the port that has to be deducted from 21,600, but please understand that this actually fluctuating on a day-to-day basis and even during the days there are flexible, I am just giving you some ballpark number.

Achal Lohade: I was just actually more curious to know about white sugar because if I look at your white sugar is about $330?

V. Ramesh: Except for a few SAARC countries particularly Sri Lanka and others, there the white sugar is marketable as such but if you take internationally they look at refined sugar which is sub 45 ICUMSA which is not an normal product made by the sugar mills in India.

Achal Lohade: You do not see much of export happening for the current sugar season 2014-2015. What would be the number according to you; would it be less than 0.5 million tonnes?

V. Ramesh: It is expected to be somewhere between 0.5 and 0.7 million tonnes. The Government announced export subsidy sometime in February 2015. So the quantity that we are looking at is the cumulative export that has happened since last October to this September we are talking on this quantity.

Achal Lohade: The other question I had was you in the initial remarks you talked about probably diverting more sugarcane juice towards alcohol making so by that you can also reduce the production of sugar, so just to take it forward the molasses would which probably you indicated, do you think there could be issue with respect to the capacity if many mills can do that?

V. Ramesh: Basically two things have happened. This is actually for the year I would say 2014-2015 it is a transition year for many mills to actually come and supplying Ethanol. Many mills across the country did not participate in the earlier tenders floated by the oil marketing companies for various reasons, some of them required the State Government's approval for diversion of molasses to Ethanol. Some of them actually said I could not come up with the initial deposit money required to participate in the tender and so on, but the government has done what it has done is it has taken two very significant steps in terms of promoting Ethanol. One is actually even in spite of the fact that the oil prices have been coming down internationally, they have offered a much better prices going forward for the sugar year 2014-2015. So basically I would say on an average there was a 10% increase in the Ethanol price offered by oil marketing companies as compared to last year, so typical landed ethanol price at the oil marketing installations would be around Rs.49 per liter. The second thing that has actually been done by the government very recently is that what they have said is effective October 1 2015 they would exempt the excise duty on Ethanol. By exempting the excised duty on Ethanol there is one catch of course is that there is an excise duty on molasses used for Ethanol. So you will not get the benefit of the input credit because the final product is exempt from excise but effectively on an average they realize a bit, because we are all quoting for a landed price of the OMC installation but still the fact is that the exemption of excise from October will mean an additional Rs.2 per liter realizations for the sugar mills. So these are the two things that the government has actually done. Now what will happen is I would see that on an average at this moment we are looking at about 3% is the actual incorporation of Ethanol in petrol during the current year and that it can easily double. Now if this doubles actually, let us say double about 70 Crores liters of additional Ethanol is actually produced. It would actually take away 400,000 tonnes, approximately

400,000 tonnes of sugar or 0.4 million tonnes of sugar. So what will happen is that if today the government goes up to 100 Crores liter incremental it would take away 1.6 million tonnes of sugar. So I do not know whether you have to multiply that by 1.6. So essentially therefore I think over a three-year period definitely we will move to 10% incorporated currently three even if it doubles to 6 next year and then to 8 and 10 over a three-year period definitely you will see let us say 250 Crores liters of Ethanol being produced. So of course what it will mean is that molasses will have to get diverted to ensure that this actually happens.

Achal Lohade: I was just wondering if OMCs are saving any money or incurring loss on Ethanol blending given the fall in the crude price.

V. Ramesh: Obviously at this moment they are not very happy, but the fact is as far as the country is concerned it will save foreign exchange. Secondly the thing is you should not look at single point of time in India because today the oil prices happened to be at close to $50 per barrel but if the equation changes it will be better for them to actually buy more of Ethanol. Brazil for example almost about 56% of the total sugarcane goes into Ethanol and it is only 44% of the sugarcane goes into sugar. Of course it has taken them about three decades to get to this whereas in India today when we are saying it is hardly 2% at this moment of time. So as against 56, 44 Brazil it is 2 and 98 for India. So let us see going forward Ethanol incorporation in petrol will become important for the sugar mill.

Achal Lohade: If you could clarify please Sir on the cane price the litigation part in Karnataka and Tamil Nadu what is the status now?

V. Ramesh: As far as Karnataka is concerned, there is no litigation as such. It is that as far as the current year 2014-2015 is concerned, FRP you must be aware that both Karnataka and Maharashtra have shifted to FRP for the sugar year 2014-2015. So as far as 2014-2015 is concerned, there are no disputes in terms of what the prices, the only dispute is on cane arrears. As far as we are concerned, we do not have that problem. As far as Andhra is concerned, there are no disputes again it is FRP and also we negotiated the prices with the farmers. As far as Tamil Nadu is concerned, yes you have a sap but nobody is paying sap in any case in Tamil Nadu.

Achal Lohade: There is no litigation you are saying in Tamil Nadu.

V. Ramesh: There is an ongoing litigation for the sugar year 2013-2014 where at this moment it is spending with the Madras High Court.

Achal Lohade: Because I saw your contingent liability did go up by 50 Crores in 2014-2015?

V. Ramesh: Basically we have paid slightly more than FRP. So whatever cane price we have paid minus the SAP we have sold as a contingent liability.

Actually one good thing has happened is during the quarter the Karnataka government has actually paid about Rs.100 per tonne to the farmers in July for the sugar year 2013-2014 so to that extent the contingent liability has come down that is one and second is Rs.100 is still we are discussing between the government and the mills.

V. Ramesh: Again there is an amount of Rs.100 per tonne, which is in dispute between the government, the farmers and the sugar mills for the year 2013-2014 in Karnataka but 2014-2015 there is no dispute.

Achal Lohade: So 2014-2015 it is all agreed that it is going to be FRP?

V. Ramesh: Yes, we have already paid out actually there. I understand many mills are not paying the FRP.

Moderator: Thank you. The next question is from the line of Sukhwinder Singh from B&K Securities. Please go ahead.

Sukhwinder Singh: I just wanted cogeneration rate for the quarter and the corresponding quarter last year.

V. Ramesh: Cogen there is an average rate is it. It has moved from 4.5 to 4.8.

Sukhwinder Singh: Just wanted to have an outlook on distillery volumes, especially Ethanol volume going forward and what is the market share of the O&K tenders EID participates normally?

V. Ramesh: Actually currently this OMC are continuous floating tender. We actually got an allocation of 70 lakhs litre in Andhra and 30 lakhs litres in Karnataka and this is to be supplied by November 2015 so that is ongoing at this moment of time. As far as Tamil Nadu is concerned, we have got an order for about 50 lakhs liter; it is only now that after lot of discussions with the state government we are likely to get the approvals this week for diversion of molasses for Ethanol. So from next week we would actually commence supplies of Ethanol to the OMC in Tamil Nadu.

Moderator: Thank you. The next question is from the line of Akshay Ajmera, an Individual Investor. Please go ahead.

Akshay Ajmera: Good morning Sir, my question is regarding the inventory that we are carrying as on March 31 on standalone basis if I see the inventory it is valued at 901.51 Crores and during our last concall you mentioned that it is approximately 3.4 lakhs tonnes of inventory so if that is the case and I am arriving at an average size of 25,515 per tonne, so is it fair to assume that if my understanding is correct regarding this because during that particular call you mentioned that the average inventory.

V. Ramesh: It is actually the average price is about Rs.25,000. At the end of March it was averaged at about Rs.25,000.

Akshay Ajmera: But then how do we have arrived at this balance sheet number, if you can just clear my understanding?

V. Ramesh: The balance sheet must have included Bio Nutra, it includes Bio Nutra also.

Akshay Ajmera: No, I am just talking about finished goods, sugar value, which is 901.61 Crores.

V. Suri: Actually there is one excise duty we also had in the finished goods for the purpose of accounting so that is why actually the basic price at which we have valued is Rs.25,000. Excise duty is included in the valuation which is showed in the balance sheet.

Akshay Ajmera: My next question is regarding this quarter's inventory, which you just mentioned that it is 3 lakhs tonnes, could you just throw some light if it is possible for you to bifurcate and what price we have valued the Tamil Nadu inventory and what price we have valued the Karnataka inventory?

V. Ramesh: We will give you the average. Average is about 23.

Akshay Ajmera: What would be the current selling price?

V. Ramesh: Current selling price actually varies but it is about a Re.1 or Rs.2 lower currently if you see today's market price.

Akshay Ajmera: So we could expect a further devaluation in our inventory?

V. Ramesh: We will have to wait; we have a policy by which the sugar stocks are valued at the average sales realizations through the quarter. So let us see but as of now if you go this is the same prices continue from where we are today right and the same prices continue through the quarter yes there will be further devaluation.

V. Suri: But actually we expect the prices to actually stabilize or go up depending on the policies of the government that is a very important factor.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Good morning Sir, few questions one of the Ethanol blending you talked about in three years it can reach almost 250 Crores liters so just wanted to know whether India has a distillery capacity to do Ethanol of such large scale or do you think people have to put up new distilleries?

V. Ramesh: Quite a few mills in the north India actually are going in with investments in Ethanol. So as far as we are concerned we are not doing anything at this moment at EID Parry but there are quite a few mills which are looking at making investments on Ethanol.

Bhavin Chheda: So what about EID whenever that volumes go up, can you handle three times more volumes when the demand of that Ethanol comes?

V. Ramesh: It is not a problem, you must be aware that on an average we do 600 lakhs liters plus annually between the four distilleries that we have two in Tamil Nadu, one in Karnataka and one in Andhra Pradesh and the question is what percentage will need to be diverted for alcohol for human consumption and what percentage will actually be Ethanol for the oil marketing company. As of now if you go by the current numbers it would take full year we would possibly do around 150 lakhs liters in this year maximum. So which means only 25% of it is actually going into Ethanol for this year and obviously going forward depending on which gets better realization we will switch.

Bhavin Chheda: So the current tenders you have got almost 1.5 Crores liters what is the ex-factory NSR on that?

V. Ramesh: Ex-factory is about Rs.40 per liter now but we will go up to net realization, net contribution will go by Rs.2 a liter from October 1.

Bhavin Chheda: That is the excised thing what you are mentioning?

V. Ramesh: Yes, so basically excise about Rs.4, molasses you have to subtract on it and the net realization will go by Rs.2.

Bhavin Chheda: For the other rectified asset and all that what could be the ex-factory NSR now?

V. Ramesh: It varies very dramatically, there are lot of fluctuations but ENA, which is what primarily goes into alcohol is about 42 and the refined spirit is about 34, 35.

Bhavin Chheda: Refined spirit is 34, 35. So basically the ENA is following the Ethanol trend and it will move in line with that right?

V. Ramesh: Also you must understand that here I need to just give, we cannot generalize like this for example Andhra Pradesh there are lot of grain based distillery units because of that the prices of ENA will be around 35 to 37. So in Andhra Pradesh it does not make sense to do any ENA. Situation therefore I am saying it varies from state to state. I was just giving you some ballpark number so obviously we have the capability to produce either Ethanol or ENA and we would produce that which gives us a better contribution.

Bhavin Chheda: So you will be doing very less of rectified spirit right now right or how much portion.

V. Ramesh: Obviously, once we are fully into ethanol production RS new will becomes zero. We do not need to produce any I mean essentially we do not need to sell any RS.

Bhavin Chheda: Whenever we are seeing this trend and obviously the government is also saying that 250 Crores liters has to happen whether it is two years, three years or four years eventually it will happen so if the sugar companies have to also maintain a market share in the E&A and rectified spirit segment because someone will have to serve that obviously there will be a big capex on distillery front, right?

V. Ramesh: So actually that is what I am just telling you some time back quite a few mills I am not naming them are making investments in Ethanol and therefore adding to their distillery capacity.

Bhavin Chheda: Just to take it this further there is a process of doing directly from cane to Ethanol also that model is also there right without…

V. Ramesh: That involve different technology altogether and I am not sure how many mills do have that technology capability as of now.

Bhavin Chheda: Sir just on the contingent liability figure I did not get, how much is the past and for the current season the contingent liability?

V. Ramesh: You are referring to the total.

Bhavin Chheda: Yes total contingent liability in the past some Karnataka, TN cases are pending.

V. Ramesh: For cane it is about 90 Crores.

Bhavin Chheda: Rest of it is either settled government paid and it is not litigated anymore.

V. Ramesh: Correct.

Bhavin Chheda: What was the TN SAP which is announced you gave your cane figure but what is the SAP figure?

V. Ramesh: All the 90 Crores is entirely TN only. The difference between the TN SAP and the price that we are paying is about Rs.200 per tonne for this year and it is Rs.250 per tonne for the earlier sugar year 2013-2014.

Bhavin Chheda: 200 is for this year and 250 earlier. You said you are paying 2450 right.

V. Ramesh: Yes and the SAP in Tamil Nadu 2650.

Moderator: Thank you. The next question is from the line of Hitesh Doshi, an Individual Investor. Please go ahead.

Hitesh Doshi: In coming season is Brazil shifting more cane towards Ethanol than previous season?

V. Ramesh: As of now what is actually happening is, what is likely to tilt the balances is the Real, the Brazilian Real is moving and what happens is as the Brazilian Real keep depreciating more quantity will move to sugar because they will export sugar whereas they have to compete with Ethanol import into Brazil, however it is not likely to be very significant I was telling you the ratio is 56-44 I mean it can become 55-45 or 54-46, so it is not going to be very substantial enough to tilt the supply or demand situation in sugar.

Hitesh Doshi: So I mean in this situation if even India starts exporting when the global price strength will move further down I mean how much subsidy also government can give year-on-year I mean?

V. Ramesh: On the one side you cannot say the sugar prices are ruled by the market and sugarcane prices are fixed by the government. So there is a cost that has to be paid somewhere or you have to free both. If you free both I agree then the government does not have to give any subsidies zero subsidy whatsoever, but if you are going to fix the sugarcane prices on the one side then obviously the government cannot wash its hands away and say that the cane cost and the sugar price are at the same level, I do not think the government can mandate that you pay the FRP.

Hitesh Doshi: You said any agreement between farmer and the miller is purely legal then in this situation like could not we foresee this kind of unpredictability in the sugar prices and why we have not taken this kind of step maybe in last one or two years as a company or as a industry also.

V. Ramesh: I think it is a fair question but you see what happens is that the sugarcane prices normally agreed at the beginning of the sugar cane and sugar year prices and this is October September. As far as our last October is concerned all of us were sitting pretty.

Hitesh Doshi: But we were knowing that we are going to over produce as an industry.

V. Ramesh: The fact that we would actually end up with the surplus of 3 million tonnes plus. I think hit the market only sometime in March. Till that time we were expecting.

Hitesh Doshi: So is it possible now where the farmer and the miller agree some kind of a Brazil formula or where you will pay the farmers according to the realization rather than locking any sugarcane price may be farmer may also benefit or loss to the company will be minimum if prices further go down.

V. Ramesh: It is very theoretical, the whole country and both the sugar mills and the farmers are waiting for the government announcement, which should actually something should come through by September after which only serious discussions can take place. Even therefore I am also from our side I cannot give you a clear picture on anything unless we get to know something so maybe in sometime in Q2 analyst call when we have, by when we would definitely have clarity we will be able to tell you but as of now we are all postulating, we will have to wait for the government announcements, something will definitely happen by September end.

Hitesh Doshi: I was talking to other millers in UP and other parts of India. So I mean they were quite apprehensive that they cannot pay below FRP because FRP is the statutory requirement so the legality of this agreement is I mean are you sure about.

V. Ramesh: Let us wait, at this moment I do not think anybody has begun discussion each one is stating what he wants to do but till the government makes clear announcement it is unfair on us to predict what is going to happen.

Hitesh Doshi: If the traction in the nutraceutical business in terms of top line and kind of bottom line I am seeing on year-on-year Q1 FY'14 to Q1 FY'15 is it sustainable or is it some seasonal thing?

V. Ramesh: As far as the nutraceutical is concerned, I would say it is a very robust business that we have. We are one of the few companies in the world which have got access to various ingredients in nutraceutical. Primarily we have got three ingredients that go into nutraceuticals, one is called Spirulina, the second is called Astaxanthin and the third is called Lycopene, which is tomato so essentially these three items which are used to formulate a nutraceutical product. We actually make them; we have the advantage in terms of the supply chain.

Hitesh Doshi: Can you throw some light on you said you are putting more money in the nutraceutical business now I mean.

V. Ramesh: Essentially the thing is we are putting more money in terms of increasing our capacity to make this raw material.

Hitesh Doshi: So can you throw some light, can you show some what is the color of that I mean what kind of numbers you are talking about incrementally?

V. Ramesh: Actually the Spirulina is actually primarily produced in our Olaiyur Plant in Tamil Nadu and in there we are now increasing the capacity by 20%. So that is what we attempt for, about 450 metric tonnes we are now already moving eventually will move to about 600 metric tonnes. The other area we are doing is actually expanding capacity on Astaxanthin in our Chile plant which we have acquired last year. So these are the two areas where we are actually increasing capacity in both the cases we are the world leaders in the market share.

Moderator: Thank you, ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Kashyap Pujara for closing comments.

Kashyap Pujara: I would like to thank EID Parry and participants on behalf of Axis Capital. Thanks for being on the call with us.

V. Ramesh: Thank you very much.

Moderator: Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.