



EID Parry- Q2-FY2013/14 - Earnings Conference Call

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**MANAGEMENT: MR. V. RAVICHANDRAN – VICE CHAIRMAN.
MR. V. SURI – CFO.**

MODERATOR: MR. KASHYAP PUJARA – ANALYST, AXIS CAPITAL

Moderator: Ladies and gentlemen good day and welcome to the EID Parry's Earnings conference call hosted by Axis Capital. As a reminder, all participants' 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 telephone. 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 evening everybody. Thank you so much for participating in second quarter FY14 earnings conference call of EID Parry. From the management side, we have Mr. V. Ravichandran who is the Vice Chairman and we have Mr. V. Suri who is the CFO. Without taking too much time, I now hand over the floor to Suri. Over to you sir.

Suri: Thank you very much and good evening to everybody. As a start, I will give a summary of the results which have happened during this quarter. The standalone turnover of EID Parry for the quarter was about 454 crores against the corresponding period of last year 503 crores. The net profit before exceptional item and tax was 25 crores against the previous year of 69 crores. Just to clarify that the previous year numbers did not include Sugar units of Haliyal and Sankili which got merged with effect from 18th March 2013. So to that extent, the numbers of the current quarter are not comparable with the previous year.

As far as the consolidated turnover is concerned for the quarter, EID Parry has a turnover of 2477 crores against previous year 3253 crores. Profit after tax before minority interest was 68 crores against last year 183 crores. As far as sugar division is concerned, the consolidated sugar operations reported a loss of 49 crores against the previous year profit of 2.67 crores at the PBIT level. Due to the drought conditions in some of the factories in our operations, the cane availability during the first half during both quarters have been low and hence it has affected recovery also to some extent. However, the monsoon has been good so far in the current year. It is showing very good results in terms of cane availability for the coming main season and the way forward. As far as the bio-products are concerned, we reported a PBIT of 14 crores against the corresponding period of a profit of 0.55 crores. So this is the overall financial position of EID Parry standalone. So we are open to any questions from the audience.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We have first question from the line of Mr. Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra: Sir can you help us with the volume data for this quarter?

Suri: Now during this quarter, the total we have including the Andhra Pradesh and Karnataka units, we crushed 9.5 lakhs tonnes of cane during this quarter against the corresponding period of about 14.4 lakhs last quarter.

Satish Mishra: And what was the average recovery rate?

- Suri:** Recovery rate was 8.25% against last year's 8.48%.
- Satish Mishra:** And sugar sales for the period?
- Suri:** Consolidated Sugar sales for the current quarter was 1.06 lakhs Tonnes of sugar against last year same quarter of 1.5 lakhs Tonnes.
- Satish Mishra:** And average sugar realization will be?
- Suri:** The average sugar was at about 30,200.
- V. Ravichandran:** Roughly about last year.
- Satish Mishra:** And sir same with the distillery production and sales number?
- Suri:** In terms of distillery production, we produced 142 lakh liters against last year's 129 lakh liters and Co-gen we generated 826 lakh units against last year's 1447 lakh units. This is the consolidated numbers.
- Satish Mishra:** And distillery sales?
- Suri:** Distillery sales, we sold 147 lakh liters against last year's 133 lakh liters.
- Satish Mishra:** And average realization distillery?
- V. Ravichandran:** we cannot give you now.
- Satish Mishra:** So sir now coming back to your segmental result, in sugar division, there is a loss. There is a drop in cane crushing?
- Suri:** Yes correct and also to some extent the recovery.
- Satish Mishra:** Right and even if you see distillery division also, there is a decline whereas volumes are higher than last year. PBIT in distillery is lower year-on-year whereas our volumes are higher. So can you give us the reason, the distillery division?
- V. Ravichandran:** The molasses have been valued higher this year compared to last year, the transferred price.
- Suri:** So if you have to look at that, no, this would have done better but for the transfer pricing.
- Satish Mishra:** Fine sir and sir second question as you said that monsoons are good, so probably you are expecting better second half.

- V. Ravichandran:** No, we are not expecting better sales. We are saying we will do better cane next year that is 2014-15.
- Suri:** No, better cane availability for 14-15 which is sugar year 13-14 it will auger because its artificial cutoff on March. So which can also spillover to April, May because of delay in crushing. So hence it will spill over to the next year also.
- Satish Mishra:** Okay sir fair enough, but FY14 there will be an increase from these levels.
- V. Ravichandran:** Current monsoon will help in planting for the year starting from special season of 2013-14 and 2014-15 main season. The current monsoon will impact financial year 2014-15. So this monsoon is not going to impact you for the main season at all which is starting from December and ending in March. As cane is already planned, so nothing is going to change because of this monsoon.
- Suri:** Overall there is a decline in terms of this cane availability because of the drought last year. So 14-15 we expected to be better because monsoon had been very good so far.
- Moderator:** Thank you. Next question is from the line of Mr. Rishab Bothra from B&K Securities. Please go ahead.
- Rishab Bothra:** Sir could you throw some color on how the cane availability will be coming season that is for India and considering the higher sugarcane output, prices are on a declining trend. How cane prices will map going forward because there are some reports that it will be linked to sugar realization. How are we placed in this scenario?
- V. Ravichandran:** There is an uncertainty in the cane price fixation. So, it is not clear whether cane price will be linked to the sugar price as Rangarajan Committee formula or not. So there is a lot of uncertainty in terms of what is going to be cane price at this point of time. Availability of cane will be better because the monsoon is good. So cane is a very remunerative crop. Even at the current price, farmers may make decent money.
- Rishab Bothra:** But millers are not able to sustain at these levels, so while millers will crush and incurred losses?
- V. Ravichandran:** The millers will not crush. Unless the price is announced now and it is viable, they would not crush. That is very clear.
- Suri:** Actually across the India today, the whole crushing has now got delayed. Nobody is crushing today.
- Rishab Bothra:** Since it is a perishable commodity, farmers will lose on their crop because it may deteriorate in recovery of sugar.

- Suri:** Correct, it will happen.
- Rishab Bothra:** That is bound to happen. So we may see a lower sugar output going forward in case the delay is prolonged.
- Suri:** So that was on what was happening in the past. Now you have every 3-year sugar cycle. Now this time it is going for 5 years. So it is neither helping the farmer, not helping the industry.
- Rishab Bothra:** How are we tackling the situation, are there any other alternatives to change our business policies or mix?
- Suri:** From sugar?
- Rishab Bothra:** Yes.
- Suri:** We are hopeful that the cycle follows and then sometime we make good realization, good profit.
- Rishab Bothra:** And how about the Silkroad refinery sir, whether raw sugar refining is attractive at this juncture or not?
- Suri:** The Silkroad refinery project will be ready only by April 2014. So that time we have to see whether we can buy raw sugar from India or abroad and then we will refine and sell.
- Rishab Bothra:** But as far as I remember, so this project has been delayed for quite some time before it was gas based, now it is coal based. So what exactly causing this delay and the JV partner has also moved out. So what is the prime reason that we are not able to commission or extract money from this refinery?
- Suri:** No, there is no delay in commissioning this project. This project was commissioned with a very marginal time overrun but what happened was we did not get the full allotment of gas. The gas allotment was less than 50% and it did not meet the minimum quantity for the plant to run. So the plant got stopped the refinery operations in October/Nov 2011. So we had gone ahead and got permission to put a coal fired boiler which probably it will get completed by April 2014.
- Rishab Bothra:** So we intend to refine sugar thereafter?
- Suri:** Yes very much.
- Moderator:** Thank you. Next question is from the line of Mr. Achal Lohade from JM Financials. Please go ahead.
- Achal Lohade:** I have a few queries. One on the data point front, can you give us some sense as to what is the other income breakup?

- Suri:** That is, mainly of dividend received from Coromandel.
- Achal Lohade:** It is entirely dividend from Coromandel.
- Suri:** Out of 91.74 crores in other income, Rs. 80 crores is dividend amount received from Coromandel.
- Achal Lohade:** Understood. Sir can you help us understand this PSIL units, the merged two units, are they EPS accretive dilutive, have they negatively impacted the profits otherwise for the standalone company?
- Suri:** During this period, first half of the year, there is no crushing in those two units, viz., Haliyal and Sankili, since Karnataka operates only in the second half. So during the first half, there is no operations relating to Haliyal and Sankili. So hence there was a loss which has got added to this EID Parry on the standalone.
- Achal Lohade:** What could be roughly the loss according to you at PBT level ?
- V. Ravichandran:** PBT is about Rs. 24 crores.
- Achal Lohade:** Understood. How do you see it going forward, you think it will be better off in coming season or coming year actually FY14?
- V. Ravichandran:** We cannot take a view on the next 6 months. The unit was purchased because it is a profitable venture for EID Parry. This is only the initial issues because this ups and downs in the industry, which is not something unknown in the industry. So right now the only issue is sugarcane price and the sugar price. So normally there is suppose a spread for the sugar manufacturer, that spread is not there today because of the high cane prices have been recommended. So we only hope this cycle reverses quickly and then spread again comes back, then every unit will make a profit in sugar.
- Achal Lohade:** Understood. Two queries on the same actually sir. On one hand on the production front, what is the outlook? Do you see that industry crossing again 24 million tonnes or given the delays there is a risk to the 24 million-25 million tonnes assumption.
- V. Ravichandran:** This delay is very nominal delay. Unless there is a delay of 1-1/2 months, then yes. Definitely there will be a significant drop in production. So we only hope that, some sense prevails and then the cane prices are suitably fixed as there should be some transferring mechanism, transferring formula or else the cane will not be crushed.
- Achal Lohade:** What is the status on the Karnataka cane pricing? We were told that the government actually accepted the cane pricing act. What is the status? Has the decision been arrived in terms of the percentage of sugar price we paid as cane price?

- V. Ravichandran:** No, it has not been arrived so far. I suppose a committee is formed with representation from Industry, farmers and the government. However, the farmer has already been paid some money. Now as per the formula, the price is going to be lower. So there may not be acceptance from the farmer side on the lower price.
- Achal Lohade:** That would not happen easily actually.
- V. Ravichandran:** So as and when they increase the price which are going down on price, so the gap widening with every discussion.
- Achal Lohade:** What is the current realization we are having in terms of domestic market?
- V. Ravichandran:** Realization, it varies from state to state. In Karnataka, it is now prevailing at 27 per kg, Tamil Nadu is about Rs.28.25 per kg. So every passing, they go in further
- Achal Lohade:** What is the key reason because we understand that typically prices do improve in the festival period, offseason. Is that you have seen lot of imports coming in that initially that impacted or is it more to do with ...
- V. Ravichandran:** the decontrol is new mechanism. So we cannot compare what happened last year and this year. In the past, government was managing the pricing indirectly through release mechanism and they were not doing directly. By controlling the release mechanism, the traders were getting no indications as to what is going to happen to the price. There is lot of speculative activity around this time. Price used to move up. So accordingly cane prices used to move up. Once the cane price movement is over, government also will play different. Now this time this is not possible. So everybody has got a lot of stocks and there is no control on any release mechanism. So what is happening, the dealers are not holding any stock and they do not want to take any speculative position in the market. So this is a new scenario. So industry is learning in the new scenario. The past cannot be repeated now because past is a different market, today is a totally different market.
- Achal Lohade:** And artificially higher supply also because the government's allocation of...
- V. Ravichandran:** control mechanism all that has gone. So that is giving a new switch to the entire industry.
- Achal Lohade:** Just one more question sir on the exports front, what is the current exports realization according to you. Are those profitable now?
- Suri:** They are non-profitable.
- Achal Lohade:** What is the current exports realization according to you?
- V. Ravichandran:** They are much lower than any local realizations.

- Suri:** Currently it is around 26,500 or something like that. That is what it is coming.
- Achal Lohade:** And is that for raw sugar, white sugar. White sugar exports realization sir?
- V. Ravichandran:** White, there is no export today. There is only possible export is of raw sugar.
- Achal Lohade:** White, there is no possibility.
- V. Ravichandran:** White there is no possibility, only raw. So raw sugar, now the price is about \$450 that is much less. Actually this price is there with now rupee at 68 would have made some sense. The rupee is appreciated and the realization has come down. Export at this price does not make sense. So we have to wait. So hopefully some improvement may happen on the export side.
- Achal Lohade:** And this raw sugar is sustained for which location, is it for Dubai?
- V. Ravichandran:** It is mainly for Middle East.
- Achal Lohade:** Alkali's Refinery because we were reading that there is some increase actually.
- V. Ravichandran:** Yes.
- Moderator:** Thank you. Next question is from the line of Falguni Datta from Jet Age Securities. Please go ahead.
- Falguni Datta:** Sir just wanted to know what is the PBIT cost of producing sugar in Tamil Nadu like before interest and after depreciation?
- V. Ravichandran:** This is a sensitive information and will not be shared.
- Falguni Datta:** And what is the landed cost of cane for the year?
- V. Ravichandran:** For the 2013-14 season, Cane price is not yet announced.
- Falguni Datta:** I just wanted to check for the previous season, the landed cost of cane?
- V. Ravichandran:** The landed cost was 2450 for 9.5% recovery.
- Moderator:** Thank you. Next question is from the line of Mr. Manish Goyal from Enam Holdings. Please go ahead.
- Manish Goyal:** Can you give us what is the current inventory and at what value you have taken?
- V. Ravichandran:** So we have something like 1.4 lakhs tonnes of inventory, on a consolidated basis.
- Manish Goyal:** And what is the closing value you have taken?

- V. Ravichandran:** This is also a sensitive information and hence could not be shared.
- Manish Goyal:** And sir if you can just highlight what led to improvement in bio-products performance and how do you see going forward?
- V. Ravichandran:** Bioproduct if you see over the years, they have been working very consciously to improve not only the total amount of neem you process, bioproduct is mainly neem based. There are other products, but the majority of the turnover and profit comes from neem. So we have been able to now procure more amount of neem and process it through the plant. Second, exports have been good. Third is our extraction efficiency. There are lot of improvements we made on the extractions. Because of which, the bioproducts is showing good track record besides the rupee depreciation which is helping because mostly export.
- Manish Goyal:** So can we expect the trend to continue for coming time sir?
- V. Ravichandran:** Only good thing is while we do not have government to intervene from time to time. It is the faith in management will improve, but if government comes, you cannot improve.
- Manish Goyal:** Sir last question on the ethanol as I remember last call you had mentioned that we have not participated in the tenders.
- V. Ravichandran :** We have participated. Every tender, we participate. We quoted a price which was very realistic at that point of time, but others have quoted a very low price. So what happened we have been called a negotiation and we have reaffirmed our price. Now the molasses price shooting through the roof, everybody tend revise the price. Now the second tender has come, this time in recently in which we were only participants from Tamil Nadu, no others have participated.
- Manish Goyal:** Only we have participated and what is the expectation sir on the same?
- Management:** The OMCs, though they know very well that the price what is quoted by the industry is very competitive and very economical compared to importing petrol and diesel or crude, but there are compulsion from there so they called for two rounds of negotiations and two rounds of negotiations are over. So we will wait and see.
- Moderator:** Thank you.
- Kashyap Pujara:** Wanted to just ask you a question pertaining to how you read the situation. There has been lot of rough news doing the system that there could be possibilities of duty is going up in terms of import duties. What is your sense on that? Is it that can the duty really moves up to actually enable a better pricing on sugar front in the near term, how do you read the situation?
- V. Ravichandran:** The thing is that the damage has already been done. So now whether we will increase the duty now does not make any difference to us which have been done long back. The mills do not

want any import because plenty of sugar anyway coming now from local. So we are anyway representing to the government that the import duty has to be hiked.

Kashyap Pujara: And the point is that at the end of the day, you correctly said that there is a stalemate wherein farmers basically want a better cane price because of political compulsions and industry is not able to service at this point in time and there is a clear stalemate, but having said that, would that accelerate the move to for decontrol in some sense and are you optimistic of that panning out election?

V Ravichandran: Decontrol has already been done. Now what is there to consider is cane price fixation and I do not think cane price will likely decontrol. Though Rangarajan Committee recommendation formula is very transparent and which is beneficial to the industry as well as to the farmers. Rangarajan committee is almost suggesting something like that sharing of the profits, sharing of the income. It is unlikely for the farmers to accept it as the price will be lowered as per the Rangarajan Committee formula.

ashyap Pujara: That is true, but if the industry is not taking offtake, then actually that is more harmful than the other way round right? So would there be some sense which will prevail at the respective state government levels to basically have a smoother transition of the industry in this year specifically or are we going to see that no one wins in this entire bargain for this year?

V. Ravichandran: So it is clearly harmful to the industry as a whole, when the mills are going to pay the price. Now farmers have realized that in good years they got good money. Even now at the current prices are the prices what was suggested by Mr. Rangarajan, there is a good profit to be made and the sugarcane is a very profitable crop. It does not require much of effort from farmer side. The sugar is higher productivity crop today. So the farmer realized on good years, mills are willing to pay and in bad years like now, they have to take a lower, no profit, it may work. But sugar industry is no mood to suffer further because bank is not funding the industry. Considering the situation, the farmers now should ask for reasonable price and get the money.

Kashyap Pujara: So in this entire process, basically it is very clear that your overall crushing this year is going to be lower across the industry. So from our perspective, if I were to say from a perspective of March 14 like last year we did close to 53 lakhs and so what would be your realistic figure this year around to work with? Would it be 10% lower, 15% lower, what would be the number which you would guide?

V. Ravichandran: Six months is a long period to predict, because there are so many events can happen. It depends upon the monsoon in our parts of the world.. What we now today is there is a standing cane. Now anyway Tamil Nadu does not start very early. Tamil Nadu starts crushing only in the month of December, around December. So the delay in another few days does not make a big difference. The delay is another two days does not make a big difference but delay is another one month or one and a half months, then somebody will become desperate and that desperation will come from farmers anyway first. There is enough sugar to export anyway,

enough sugar to consume locally. The industry is anticipating shortage for the prices to go up. Personally if you ask me, I would like a shortage of sugar to come for prices to go up. So it all depends and after Diwali. Then we decide after Diwali, what happens.

Kashyap Pujara:

Fair enough and since I just take liberty to ask one or two more questions since you are there on the call which very few times we get such opportunities. Basically if I were to look at fast forward EID say 5 years down the line, I understand that currently near term we have worked with all these issues. Having said that, I think off late at least Coromandel has started showing improvement. We are seeing some traction coming through in bioproducts which is quite reasonably good, I mean I would say considering the kind of numbers that we have reported and I hope that traction continues. So if I were to look at it from a 4-5-year perspective and what is the kind of improvements that can happen from the sugar business. Now that you have everything under one unit and by the time Silk Road would be on in. What are the kind of efficiency gains that we can actually bring forth and how do you read this entire entity revolving us?

V. Ravichandran:

We welcome the situation in one sense. It is a great opportunity for us to tighten our belt. So we have taken this now crisis is a very good opportunity for all of us to improve on the business and specifically for EID. So whether the industry is bullish or not, we are bullish on EID Parry's efficiency and our ability to improve on things. The integration process is almost over. Haliyal and Sankili units were already merged. Merger of Sadashiva Sugars is in the process. Anyway the Ramdurg, in terms of system, this is already in line with EID Parry. So, all 9 units are in terms of systems and procedures, are all common. We are looking at very closely all our fixed costs. We set an internal target to bring fixed cost to 2011-12 levels and on the efficiency front, the best practice of one plant can be replicated in 9 plants. So we would like to implement and replicate to all other plants simultaneously. This should enable us to now make reasonable improvement in terms of operations minimum. If sugar price goes well, this is the bonus. Sugar price affects everybody gets affected. So we are not the only one to get affected. The cane prices, sugar prices have to move in some tandem over period of time, longer period. So, if that happens and with our tightening our belts, things will be in order. We use our bio and Nutra to de-risk our overall sugar business like what we did in Coromandel. So we had pesticides and we had the organic, there are all kind of things to de-risk the subsidy policy where we are derisking with bio, Nutra and byproducts and we have got a lot of other products which are creating some new products with them in terms of agriculture use. So all these are going to enable us to de-risk the main sugar business when I say de-risk mean in terms of the cane pricing. So this is the fantastic opportunity and we are actually like to use to opportunity to address the issue of maintaining fixed cost lower.

Kashyap Pujara:

Fair enough. So basically essentially bioproducts, Nutraceuticals like what you have been saying is that it could have a potential of clocking 3 year 4 billion plus revenue which has 20% kind of margins. If that comes through, you have your Silk Road refinery which is basically proceeding smoothly that profits from there can mitigate the volatility in the sugar at some

points. Obviously you had the Co-gen and distillery and hope to get more improvement there, but essentially that can be delisted.

V. Ravichandran: That is what we are doing.

Kashyap Pujara: Fair enough and last point from my side was that I think if you look at it from a last year's perspective, I think the inventory, we saw reasonable inventory built out and this year we have seen some amount of so far hardly seen some correction is barely down by 200 crores, but the debt is more or less similar and we have seen some increase in loans and advances. So can you just explain how you read the situation panning out in terms of standalone debt and in terms of where the capital is being deployed right now?

V. Ravichandran: We do not build inventory for speculation that prices will go up. That we never do in Parry. We have a certain policy of selling so much volume every month. You can only say visibility for correction in the pricing. So what inventory will be carrying is what we are able to sell profitable at this point of time. So we have a certain policy of selling every day and so much every month and so much every quarter. So there are some variations and that is what our target, thus inventory levels are not alarming high at this point of time.

Moderator: Thank you. Next question is from the line of Mr. Rishab Bothra from B&K Securities. Please go ahead.

Rishab Bothra: Sir I missed out the power units sold this quarter if you could just once again mention it and what was the average realization?

V. Ravichandran: Number of units generated?

Rishab Bothra: Unit sold sir.

V. Ravichandran: Now what all we generate, we sell anyway and power and this proportionally cane crush. If cane crush is less, power generation and sale is also less automatically.

Rishab Bothra: But I missed out on the number if you could.

Suri: We generated 826 lakh units during this quarter.

Rishab Bothra: And what was the realization?

V. Ravichandran: The power realization is not uniform across the plant. So what happens suppose 826 lakhs units were crush to majority at Nellikuppam. Now the realization will be lower this time. Since other units have different rate, average will not help you in this.

Moderator: Thank you. Next question is from the line of Mr. Achal Lohade from JM Financials. Please go ahead.

- Achal Lohade:** One on the dividend policy, how do you see it, what is the thought process management has already made part of it?
- V. Ravichandran:** So we have some dividend policy in the group as well as individual company. The general policy is somewhere between 25-30% of the profits, but they can always change from time to time depending upon if there is any one time income etc. there may be higher dividend out, but I cannot tell at this point of time.
- Achal Lohade:** Understood. Sir in terms of debt, just wanted to know what is the long-term debt. Obviously there is one mentioned in the balance sheet, apart from that there would be some long-term debt which is repayable in next 12 months which gets clubbed in current liabilities. Wanted to check that what is that amount?
- V Ravichandran:** The question is the absolute amount how it is going to help analysts, but I can tell you we are fairly in a situation where you can service all our debts. So you do not have to worry on that front.
- Achal Lohade:** Just data point actually I wanted and the other thing is Silk Road refinery just like PSL and Sadashiva, it will also ultimately get merged. Is that correct understanding sir?
- V. Ravichandran:** No, I cannot speculate on that.
- Moderator:** Thank you. At this moment, there are no questions from the participants. Would you like to add something more to your presentation?
- V. Ravichandran :** I do not think. Actually we have answered all the questions.
- V. Ravichandran:** Any analysts want to ask question, they can do later with Suri.
- Moderator:** Mr. Pujara, would you like to add your closing comments?
- Kashyap Pujara:** Thank you so much Suri and Mr. Ravichandran for participating in the call and thanks to all the analysts to taking time out. That is all from my side.
- V. Ravichandran:** Thank you Pujara. Thank you very much. Happy Diwali to all of you.
- Moderator:** Thank you. On behalf of Axis Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.