



“EID Parry (India) Limited Q2 FY-15 Earnings  
Conference Call”

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**MANAGEMENT: MR. V. RAMESH– MANAGING DIRECTOR – EID PARRY  
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**Moderator**

Ladies and gentlemen good day and welcome to the EID Parry Q2 FY15 Earnings Conference Call hosted by Axis Capital Limited. As a remainder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '\*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara, of Axis Capital. Thank you and over to you sir.

**Kashyap Pujara**

Good evening everybody. It gives me great pleasure to welcome the management of EID Parry on the second quarter earnings FY 15 conference call. From the management side, 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. Suri. Over to you Sir!

**V. Suri**

Good afternoon everybody. Since you all already received the press release I will not delve on that. I will straight away give some operating numbers which will help you to understand how we have performed during Q2.

On the sugar front, during the quarter, we crushed only in Tamil Nadu factories. Karnataka factories did not operate during this period except for distillery operations in one of the factories. Otherwise, the entire operations have happened only in Tamil Nadu and Pondicherry factories.

During this quarter, we have crushed about 9.8 lakh metric tonnes with a recovery of about 8.9%. We have sold about 1.3 lakh tonnes of Sugar at average price of about Rs. 30,000 per metric tonne. We carry stock of about 1.95 lakhs MT of sugar at the end of September. As far as cogen operations are concerned, we produced about 730 Lakh units during Q2 and exported 404 lakh units. On the distillery front, we sold about 135 lakh litres during the period. Expansion project in Haliyal for increasing our capacity from 4,800 to 6,600 MT per day, is on schedule. These are the broad numbers in terms of Sugar, in terms of operations.

Bio Products division has two business viz., Bio-Pesticides and Nutraceuticals. As far as the Bio-Pesticides and Nutra business are concerned they continue to do well though there has been a short-fall in the top line. However, the bottom line continues to be better as PBIT increased from Rs. 10 crores to Rs.12 crores during the period. Nutra business continues to do well. So this is the overall summary on the Bio Products division of EID Parry.

So with that I'll leave to Mr. Ramesh for giving us overall summary on the business side on what is happening on the total business.

**V. Ramesh**

Thank you Suri and good afternoon to all the participants. It's been a great pleasure and privilege to be a part of the Q2 call from EID Parry. I will share with you a few things that went right and a few things that went wrong. In terms of what went right on a relative basis, Sugar prices were reasonably better than what we expected and as Suri mentioned to you a few minutes back, our

average price realization on Sugar was about Rs. 30,000 per tonne in Q2. Secondly, in terms of recovery, Sugarcane recovery in Tamil Nadu was much higher than in the previous year. Our fixed costs were under control right through and also in this quarter as these have been major areas of focus through the six months of this financial year.

Our expansion of sugar capacity at Haliyal is on schedule and we have commenced crushing in the main season for Haliyal on the 7<sup>th</sup> November. We have completed our off-seasonal maintenance activities across all our plants both in Tamil Nadu and in Karnataka and they are getting ready for the main season crushing. Another positive development in Karnataka was sugarcane pricing. Sugar Cane pricing has moved to sharing formula from the Sugar year 2014-15. That is, FRP at Rs. 2,200 per tonne for 9.5% recovery and this will be calculated based on the actual recovery of the previous year which is what we will pay as the first installment for the cane during the Sugar year '14-'15. We believe that this is a very positive development and atleast puts to rest various cane related issues.

In terms of items that could have gone better, is State Advisory Prices in Tamilnadu. In Tamil Nadu, the matter is still unresolved and the South India Sugar Mills Association in Tamil Nadu has filed the petition in the Madras High Court challenging the SAP announced by the Tamil Nadu government for the year '13-'14. This has been filed a few weeks back and we will have to wait for some time before the final decision comes out on SAP for the year '13-'14 for Tamil Nadu.

With respect to Karnataka, the hearings were concluded in July and a few days back, the judgment has come from the single judge of the Karnataka High Court where the case has gone against the Mills and the Mills have been directed to pay the cane price as determined by the State Government to the farmers. We are yet to receive the full copy of the judgment but definitely the Association will be filing an appeal before the Division Bench.

Southwest monsoon was good across in North Karnataka where we have three mills including the mill of Ramdurg which is under PSIL. Again rainfall in Andhra Pradesh was also good. Tamil Nadu depends largely on the north east monsoon. The rainfall was reasonably better for the month of October but we will have to wait for about two more months to see whether the north east monsoon can positively impact the sugarcane acreage in Tamil Nadu. Overall, in terms of sugarcane, we expect the sugarcane supplies as well as the Sugar production to be 10% to 12% better than in the previous year.

Now one more development which will impact the sugar industry in Tamilnadu, is the introduction of VAT by the Tamil Nadu Government, effective 1<sup>st</sup> November 2014. Tamil Nadu is the second state in the country after Andhra Pradesh to impose VAT at the rate of 5% on domestic sales. While we managed to get reasonably good prices in the first-half of 2014-15, in the last six to eight weeks the prices have been coming down and as of now they are ruling at about 5% less than in Q2. Further VAT will have an impact on inter-state sales and sales within

the state. We therefore, expect VAT to impact the sugar pricing which is key for the profitability of the Sugar business.

In terms of the overall mood/sentiment, we are not that positive as compared with the position of the previous two quarters. The sugar prices have come down and we are yet to receive information from the Government regarding extension of the export subsidy which was announced in the month of February 2014 and which was available till end of September 2014. Thereafter the Government has not announced any export subsidy extension and we are awaiting the Government's final statement or clarification on this. So this is an over view as far as the EID Parry is concerned.

Silkroad is now a 100% subsidiary. The plant recommenced trial runs in June 2014, after a gap of a few years. As of now, Silkroad have stabilized the operations at about 1000 tonnes per day and production during the two and half months of the quarter was about 50,000 MT. There was no sales during Q2 and the sales will begin from Q3 that is the current quarter. The production is meeting international quality standards in terms of color and other specifications. However Q2 was not a good quarter for Silkroad primarily because of taking more time in establishing the process parameters and achieving desired quality. Process losses were high during the trial runs. So, we have ended up with high losses in Q2. We believe that many of the one-time items have contributed to the loss and we should actually turn out a better performance in subsequent quarters. This is the overview of Silkroad.

I am happy to take on questions from your side. So back to Kashyap who can kindly co-ordinate and we can take on the questions.

**Moderator**

Thank you very much sir. Ladies and gentlemen we will now begin the question-and-answer session. Our first question is from Satish Mishra of HDFC, please go ahead.

**Satish Mishra**

Sir just understand the situation on the cane price for Tamil Nadu and Karnataka, last you said we are paying slightly lower than what we are suppose pay by State Governments. So can you just quantify all the numbers because you just said the Karnataka the Court decision is against us now?

**V. Ramesh**

Yes, so let me brief you about State Advisory Price. The State Advisory Price as far as Tamil Nadu concerned was about Rs. 2,650 per tonne. We are paying Rs. 2,350 per tonne. And this is the same price we have paid in the previous year also. As far as Karnataka is concerned, Karnataka had fixed State Advisory Price of 2,500 ex-field for north Karnataka units, whereas in Tamil Nadu, State Advisory Prices are ex-gate. In Karnataka, the ex-gate price will come to about Rs. 3,000 per tonne considering approximately Rs. 500 as harvesting and transportation charges. Against Rs. 3,000 per tonne, we have paid Rs. 2,600 per tone.

**Satish Mishra**

Can you also quantify the liability against each of these? For example, the Karnataka if in case goes against us, how much we need to provision for that?

- V. Ramesh** The Karnataka High Court judgment was pronounced only a few days back and we are yet to receive the full copy of judgment at this moment of time. We are likely to go on appeal before the Division Bench of the Karnataka High Court, once we receive copy of the Order. As far as EID Parry standalone is concerned, we crushed around 14 lakh tonnes of cane in last sugar year in Karnataka.
- Satish Mishra** And what is the status with Tamilnadu? The matter is sub-judice when you say?
- V. Ramesh** Yes, as far as the Tamil Nadu is concerned we have gone to the court. A few weeks back we have filed writ petition before the Madras High Court seeking quashing the notification.
- Satish Mishra** Sir second question is related to distillery division. First, I missed the volume what you said and give you can give some sense related to the realization?
- V. Ramesh** Distillery Sales during Q2 was 135 lakh litres.
- Satish Mishra** And sir this fall in crude price, fall in petrol price. Any sense of reduction.
- V. Ramesh** Yes, we produce the three products out of our distillery. One is Ethanol from our distillery at Andhra Pradesh and one plant in Karnataka. The second product is ENA and third product is Rectified Spirit. Now Ethanol is going to the Oil Marketing Companies (OMC) whereas the ENA and the Rectified Spirit are being supplied to the IMFL units who in turn sell for human consumption. So, oil prices should not affect or impact the products that are going to the IMFL units because they are intended for completely another purpose. With respect to ethanol, Oil Marketing Companies have floated a tender and finalized orders across the country for 62 crore litres of ethanol at a fixed price for the year November '14 to October '15. Typically the landed prices are around Rs. 47 to Rs. 48 per litre and you are aware the prices at which petrol are being sold in the domestic market. So I do not think it is likely to have any great impact. The country is looking at ethanol with two benefits - one is, it saves foreign exchange. Secondly, the price is in any case lesser than the price at which petrol is being sold in the retail market. Further, consumption of 62 crore liters will mean, blending of ethanol at 3% to 4% only. Hence, we do not see a very significant impact in terms of sale realization as far as the distillery products are concerned.
- Satish Mishra** And sir just last question on Silkroad like international prices are in the range of sub-17. So you have told anything in previous two months. So if you can explain the dynamic how the situation?
- V. Ramesh** Yes, Silkroad, sugar refinery, buys raws and sells whites. The prices of both raws and whites have been coming down. There is an average spread of about \$60. In terms of the profitability we hope to reach this kind of spread within the next two quarters and thereafter improve going forward.
- Moderator** Thank you. Our next question is from Bhavin Chheda of Enam Holdings. Please go ahead.

- Bhavin Chheda** What was the inventory valued at?
- V. Suri** Normally such information we do not share. However, we are saying that there is no operation in Karnataka. So, it does not move during the quarter. The stocks are valued at cost in some factories in TN. So I would like to refrain from giving information beyond this.
- Bhavin Chheda** And sir distillery what was the blended ENA/RS you had in the quarter?
- V. Ramesh** Approximately it is about Rs. 38 or Rs. 39.
- Bhavin Chheda** 38-39. Okay. And you said there is 62 crore Litres have been finalised by OMC
- V. Ramesh** Yes.
- Bhavin Chheda** And how is much is that EID in this?
- V. Ramesh** We have got approximately 1 crore litres.
- Bhavin Chheda** 1 crore litres. So, in this you would supplying only from your Andhra Pradesh and Karnataka unit, right?
- V. Ramesh** They actually floated the Tender on all India basis and have finalized orders for Andhra and Karnataka. They have not yet finalized for Tamil Nadu.
- Bhavin Chheda** And there were no export volumes in the quarter?
- V. Ramesh** As far is Sugar business is concerned, it is very negligible.
- Bhavin Chheda** And sir regarding this recent Karnataka order which has come, the order basically talks about close to Rs. 2,000 crores of arrears in Karnataka is that number right?
- V. Ramesh** Yes, the number may be correct.
- Bhavin Chheda** So you think it would be challenged in Supreme Court now?
- V. Ramesh** No - it will go probably to the Division Bench of Karnataka High Court.
- Bhavin Chheda** And to understand from EID perspective sir you accounted close to Rs. 2,600 per MT and 14 lakhs MT - so your liability will be Rs. 56 crores?
- V. Ramesh** You can work it out.
- Moderator** Thank you. Our next question is from Yash Choksi from JM Financials. Please go ahead.

- Yash Choksi** Yes, the other expenses have degrown YoY : so there any particular reason for that?
- V. Suri** We have now taken a lot of steps to reduce costs and this is purely coming out of cost reduction. We have taken measures across the board in reducing cost. So, if you look at Other Expenses, they have come down from Rs. 91 Crore to Rs. 87 Crore only. In spite of inflation, we have been able to contain costs and So we are now operating at an optimum level.
- Yash Choksi** What levels can these costs go down to?
- V. Suri** Sure, I think probably it would stabilize at these kinds of levels. For example, if you take the last year the Other Expenses were about Rs. 173 crores. And this year we maintained it at the same level. If you take the second-quarter of the year, the spent was about Rs. 87.8 Crores as against Rs. 91 crores same quarter of last year. So overall, our Other Expenses will continue to be at this level as far as this financial year is concerned.
- Yash Choksi** And sir the interest cost has also reduced by about 3 crore 4 crores and so?
- V. Ramesh** Interest cost reduction has happened for a few reasons. One is the inventory has come down during the current quarter and we were able to release money from the inventories. Secondly, we received Interest Free loans in earlier period and the full impact has come now in this quarter. So, the interest cost primarily has come from working capital reduction.
- Yash Choksi** Sir just I missed out on the price for the tenders which have been floated by the OMC?
- V. Suri** So I was telling they are landed about Rs.47/48 per litre.
- V. Ramesh** So you are referring to ethanol?
- Yash Choksi** Yes, ethanol.
- V. Ramesh** They have got depots at various locations and where we have to deliver the ethanol at their location. They are looking at a landed cost which includes excise duty, sales tax and freight. Broadly there are only three locations that we have quoted that in Andhra and Karnataka and it ranges from Rs. 47 to Rs. 48 per litre.
- Yash Choksi** And sir just one more question on that Karnataka High Court. Sir in FY'14 the annual report we have booked contingent liability of approximately Rs. 60 crores for that Karnataka High Court. So sir is it still remain as a contingent liability or post this order it will become actual for the company?
- V. Ramesh** Let us get the full copy of the High Court Judgment. However, as far as we are concerned, EID Parry believe in the highest standards of corporate governance and once a liability is fastened on the Company, we will provide for it for in our accounting.

- Yash Choksi** We appeal to a higher court then will still remain contingent liability?
- V. Ramesh** When the board considered the results and approved the same, the judgment had not been delivered. We follow fairly prudent standards of accounting and therefore internally we do it on a monthly basis and you will see it on a quarterly basis, we will ensure that any liability which is fastened on the Company is provided for.
- Yash Choksi** And sir any outlook on Tamil Nadu cane SAP prices for FY15?
- V. Ramesh** The petition is now in the Madras High Court questioning SAP for SY 2013-14. As of now th Tamil Nadu Government has not announced any price for the sugar year 2014-15.
- Moderator** Thank you. Our next question is from Balwinder Singh of B&K Securities. Please go ahead.
- Balwinder Singh** There are just a couple of bookkeeping questions. If you can give me the Sugar production and sales for the quarter and cane crushed volume?
- V. Ramesh** Yes, the cane crushed volume in Q2 was about 9.8 lakh tonnes and Sugar production was about 87,000 MT.
- Balwinder Singh** And sales?
- V. Ramesh** Sales of 1.32 lakh tonnes.
- Balwinder Singh** 1.32 lakh tonne and how much inventory are you carrying now?
- V. Ramesh** 1.95 lakhs MT
- Balwinder Singh** 1.95 lakhs MT of inventory. And sir what is the reason for this bio products de-growth until this quarter?
- V. Ramesh** The bio-products the numbers have come down only in the bio-pesticide section, that is Neem pesticides. Now, there has been a shift of an export order. So, it is only a postponement of the sales from the quarter two to quarter three. The order executive got delayed so it will move into the Q3. But profit has been better over the last year.
- Balwinder Singh** And how is the sugar outlook from an industry level as such I understand sugar prices have been under pressure. We are carrying around 7 million tonnes of inventory. So what is the outlook say for the next year?
- V. Suri** I was just telling you a few minutes back, unlike the first two quarters of this financial year, the outlook is not that bright on Sugar prices for the current quarter. I think the prices will move up marginally if Government announces an export subsidy. The second thing is that the sugar price can come down with the Sugar Mills commencing crushing from November onwards in



Maharashtra, Karnataka and so on. What typically happens in India is once a mill starts crushing, many of them are eager to sell the products for cash flow purposes - which can bring the prices down. So as of now I will say in Q3 it is not as bright as it was in Q1 and Q2. Going forward for the full year, it is very difficult to say because it actually depends on total demand and supply. As of now, I think total supply is expected to outstrip the demand by at least a 1 million tonne.

**Moderator**

As there are no further questions from the participants, I now hand the floor back to Mr. Kashyap Pujara for closing comments. Over to you, sir.

**Kashyap Pujara**

Thank you so much for being present for the EID Parry second quarter earnings call and thanks to the management for taking time out for doing the call. Thanks so much.

**V. Ramesh**

Thank you very much.

**Moderator:**

Thank you. Ladies and gentlemen on behalf of Axis Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.