

**“EID Parry Q3 FY2010-2011 Results Conference Call”**  
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**MODERATORS:**

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**Gautam Chhaochharia** Hello everyone. UBS is pleased to host EID Parry management for this Q3 FY11 conference call. We have with us Mr. Raghunandan Managing Director, EID Parry. Mr. Singhvi, CEO. EID Parry and Mr. Gopalakrishnan, VP-Finance, EID Parry. I will handover to Mr. Raghunandan. You can give a quick overview and then open the floor for Q&A.

**Raghunandan** Hello and good afternoon to all of you. Thank you very much for being here with us today. As usual I will just quickly take you through some of the work that we have done in the quarter that just ended and our outlook for the next quarter and share with you some perspectives of the sugar business as we see it going forward.

I guess most of you would know that Quarter 3 in Tamil Nadu is actually a very dull period for the cane crushing operations because it's time for the northeast monsoon. We have monsoons coming in from around mid of October all the way through December middle and, therefore, we see very little of our crushing operations. Typically our factories start up around early to mid December after we know that the northeast monsoon is over. We have had a good monsoon this year and the rains extended well into December so that we could actually crush for just about less than 10 days this time. That's rather unusual, because you would also know that the south west monsoon itself took about six weeks beyond its normal time to withdraw from India and, therefore, the north east also was consequently delayed. Compared to the previous year the Quarter 3, we have also seen some performance improvement in our recovery of about 0.5% to 0.6% unlike most of the other sugar factories in Tamil Nadu who have actually reported a lowering of recovery by almost 1% in some cases.

We have very peacefully and agreeably announced the cane price with our cane growers associations at about Rs 1901/MT for one set of factories and Rs 1925/- for a couple of others for this Sugar Season. This is an increase of about 12% on the previous year. Our distillery sales had increased by almost 50% over previous year. The standalone distillery that we operate at Sivaganga which take the molasses from our factories in Pugalur and Pettavaithalai has more or less stabilized its operation and is now operating at about 95% to 98% of capacity. In the current quarter we sold about 0.7 Lac MT of sugar against about 0.9 Lac MT in previous year corresponding period and the average realization was also almost about 8% to 9% lower at about Rs. 27,000/MT. During the quarter the domestic prices did gain a modest 15% rise, but this has to be compared with an international price increase our almost 40% across the quarter itself. Part of this was on account of the Government being very keen to ensure that the cane farmers receive their payments on time, that they plant enough cane for the next sugar season and as well as make sure that the sugar industry stays in a healthy state so that we continue to serve the food requirements of the country at large.

Going forward into the Quarter 4 we should have a normal quarter, perhaps slightly better than normal as the expansions have been completed. The co-products plants are well in place. So

we hope to crush about 15 lakh MT of cane in the Quarter 4. If things go normal, which we expect it to be; we should have our recoveries between 9.5% and 10%.

The world situation continues to get tighter on sugar. Adverse weather conditions across the world especially the major exporting as well as importing countries of sugar have been drastically affected. Brazil, as you all know, went through a severe drought in July, August, September period and then suddenly had to close its operations and rain lashed the mills in the early part of November to stop with almost one million MT of sugar not yet produced. They will have to carry this cane forward into the next crushing season. Australia, Queensland especially continued to be flood affected. Thailand has reported its own problems. China and Pakistan were flooded and, therefore, they have lost their cane crops significantly. Russia was affected by drought and had to import large quantities of raw sugar for refining. So all over we have moved from a surplus estimate of about 2 to 3 million MT that what had about 3 to 6 months ago, into a deficit across the world of about a million MT.

Similarly in India as the southwest withdrew late, Maharashtra, Karnataka and UP mills all had their own share of problems. As we predicted last time our own production estimates are turning out to be more appropriate. We thought we would have about 24 to 25 million MT of sugar production this sugar year. The estimates by the rest of the industry were significantly higher. Government was talking about 26 million MT, but it's now becoming obvious that India would do well if it produces 24.5 million MT.

Consequent to this while the Government had opened up its export policy at least to the ALS export obligation units, there has been talk about OGL of about 500,000 MT of exports. The notifications are not yet in place. We hope that the Government will take a call on this soon as it becomes clear that India will have some surplus this year. Overall we think the sugar prices will stay firm supported by reasonable surplus in the stock levels.

The risks as we see going forward for these three to four months as the crushing continues through this period will be that there are some reports that climate change is likely to affect us as well. It could be a problem, but we have to watch for this. But the good rains so far, the improved power situation in Tamil Nadu, the slightly lower prices than last year for the competing crops like paddy, tapioca and banana are good reasons for cane growers to plant more cane and we are quite optimistic that Tamil Nadu's production will increase significantly to at least about 1.8 to 2 million MT going into the next year.

The investments we have done in modernizing our sugar plants as well as the co-product units for value addition are now fully operational. Our management teams are also fully in charge of the acquisitions that we have made in the sugar mills in Karnataka and Andhra Pradesh which are basically Parrys Sugar Industries and Sadashiva Sugars. Bio and Nutra, especially, the bio-pesticide business is doing well. On Nutra, we are on the right path in direction that we had set. We are also happy to report the Silkroad sugar which is a joint venture with Cargill has now commenced commercial production from 1<sup>st</sup> October and rapidly improved its throughput to about 1500 MT per day. Lower margins are kind of reasons for us to cut back on production

for now but we are hopeful that the world prices will continue to remain firm if not get better than where it is today. As a part of its journey of creating value for its shareholders, the company has split its share face value from Rs. 2 to Re 1 to improve liquidity and facilitate more trading by the retail investors. That's all from me for now and we will take questions.

**Moderator** Thank you very much sir. The first question is from Rishabh Bothra from B&K Securities, please go ahead.

**Rishabh Bothra** Sir I wanted to understand whether the results have been included for Sadashiva and GMR, which is Parry Sugar now?

**Gopalakrishnan** Yes. The consolidated financials released includes the subsidiaries of Sadashiva and Parrys Sugar Industries Limited.

**Rishabh Bothra** So what kinds of margins were there for all the three entities separately?

**Gopalakrishnan** See , in the case of Parrys Sugar Industries Limited, the season started sometimes in October middle and sales were at an average price of about Rs. 27,000/MT in Karnataka. We should factor the 10% levy obligation and price of about Rs 17,800/MT. Though it was revised to Rs 18,700, the final announcement has not yet come. The landed cost of cane in Karnataka, roughly is about Rs 2200 to 2250/MT.

**Rishabh Bothra** This is same for Parrys Sugars – Rs.27,000 realization and Rs 2250 cane cost.

**Gopalakrishnan** Broadly the numbers are for both Sadashiva as well as Parrys Sugar.

**Rishabh Bothra** And in EID we are paying cane cost closer to Rs 2000?

**Raghunandan** Landed price, yes.

**Gopalakrishnan** Yes landed price will be about Rs 2060 including the tax we pay.

**Rishabh Bothra** And realization for EID Parry?

**Raghunandan** It is about Rs. 1000 better than Karnataka at least because as you know that this year our production in Tamil Nadu is not very much higher than last year whereas the other states have actually increased their production substantially.

**Rishabh Bothra** In regard to the refinery what kind of dynamics will prevail? What kind of tonnage we would be doing and whether there will be better processing margins or will be open to swings in the sugar prices in the international market?

**Raghunandan** It will be the latter. There will be swings in international pricing of both Raws and Whites and in this calendar year we hope to be able to do about 4,50,000 MT if all goes well from now, approximately. Say about 75% to 80% of capacity which is 600,000 MT.

**Rishabh Bothra** 4.5 lakhs would be 75% of the capacity, right?

**Raghunandan** It will really be the first full year for the operating team.

**Rishabh Bothra** And when the plant was commercially run what was the total capital employed by EID for this refinery?

**Gopalakrishnan** The investment is about 430-440 crores.

**Rishabh Bothra** So 220 would be EID's share?

**Gopalakrishnan** 1:1 is the debt equity and out of that 50% will be EID share.

**Rishabh Bothra** Okay. So what kind of pricing do we look going forward if the things continue like this and Government in order to control inflation do not release any export obligation orders. Pricing would be under pressure for current year as well?

**Raghunandan** Basically if you really look at it, it all depends on what we think is going to be the estimated production. If the indications go as it is today we think about 24 to 25 million MT with the ALS and the re-export of the old raw sugar that was lying, we should not have too much of a surplus. Because the consumption is about 23 million MT and when we have an export under the ALS scheme of about a million MT, we are really talking about 24-24.2 million MT. So which means that by September end this coming year again we are back to very close to about 40 lakhs MT of sugar in hand which is not very different from last September end. The sentiment will be that there will be support for the price at these numbers. There may be some temporary desperation to pay for cane or settle the farmers quickly so that the planting can be improved for next year supplies. That will be for the next one or two months, after that the season is more or less over then people will feel far more confident that there isn't production coming and we think there could be firming up of prices again.

**Rishabh Bothra** And any chance that we procure raw sugar for our standalone sugar business apart from refinery business?

**Raghunandan** No, today it is completely uneconomical. Raw sugar today would land in India at about \$700 to \$800, \$750 at least and the conversion margins do not exist.

**Rishabh Bothra** And could the raw sugar be considered as the profit dent for this quarter?

**Raghunandan** What does it mean?

**Rishabh Bothra** I mean since we have not reported profitability in sugar segment, could raw sugar be attributable for that?

**Raghunandan** For the year-to-date, yes it has impacted.

- Rishabh Bothra** Because for the quarter also we are closer to 30 crores of loss.
- Raghunandan** Yes because we had valued the stocks on September 30<sup>th</sup> at mark-to-market basis, the raw sugar that we had imported in the past and the white sugar that we had imported in April, May, June, yielded a little bit money as we re-exported it back, as the Government opened up its policy for exports. That was not very significant.
- Rishabh Bothra** It's because of your Indian operations only?
- Raghunandan** It is because of Indian operations yes. Low recovery across in Tamil Nadu has been a very serious concern. Tamil Nadu has been reporting almost 1% lower on its already low recovery. So, therefore, that had a significant impact for all of us.
- Rishabh Bothra** So what could be the cash and marketable security position along with debt position as on date?
- Gopalakrishnan** We published the balance sheet as of September '10 and there is no significant change as of December because basically the crushing has not happened significantly in the 3<sup>rd</sup> Quarter. It's almost at similar levels.
- Rishabh Bothra** So we are holding on to the investment as on date, in the mutual funds?
- Gopalakrishnan** Whatever surplus funds we had in April '10, we have invested part of the proceeds to acquire GMR Industries and balance is there. The balance amounts are lying in investments in mutual fund as well as some deposits.
- Rishabh Bothra** Sir roughly what would the sum?
- Gopalakrishnan** It is about Rs. 275 crores.
- Rishabh Bothra** So what could be the likely case, I mean, further acquisition of stakes in both these companies, i.e., Parrys Sugar and Sadashiva or any further acquisitions in the pipeline.
- Gopalakrishnan** We have just acquired 4-5 months back so it's too early for that right now.
- Rishabh Bothra** Okay that's it from my side.
- Bhavin Chedda** You crushed around 6.12 lakhs. Can you give this break-up into how much was EID, Sadashiva and GMR?
- Gopalakrishnan** EID is about 80,000 MT. Sadashiva is about 1.2 lakh MT and rest of it is Parry Sugar, 4.15 lakh MT.
- Bhavin Chedda** And including this now I believe your nine month crushing is close to 20 lakhs, right?

**Gopalakrishnan** Yes correct.

**Bhavin Chedda** Can you give the break-up of that also?

**Gopalakrishnan** In terms EID, it is about 14.8 Lac MT. Sadashiva is about 1.3 Lac MT. And Parrys Sugars is 4.15 Lac MT.

**Raghunandan** In Karnataka, they don't do much crushing from April through October-November.

**Bhavin Chedda** Right. And sir you mentioned that yields in Tamil Nadu were higher by 0.5 to 0.6 on Y-O-Y basis in Tamil Nadu.

**Gopalakrishnan** Recovery.

**Bhavin Chedda** Yes sorry.

**Gopalakrishnan** For our factories at Pettavaithalai and Pudukottai we have done about 0.5 better on year-on-year basis on last year.

**Bhavin Chedda** And what was the recovery position for Sadashiva and Parrys Sugars on Y-O-Y basis?

**Raghunandan** 9.6% and 9.7% this year. Last year both of them did not operate much in the period of the Quarter 3.

**Bhavin Chedda** Okay. And sir what was the Cargill refinery production number for the quarter?

**Raghunandan** Very roughly it will be about 65-70,000 MT.

**Bhavin Chedda** Okay.

**Raghunandan** Yes.

**Bhavin Chedda** Sir on the Cargill refinery side, can you give us what are the spreads right now between Whites and Raws? And was the Cargill refinery profitable in this quarter?

**Raghunandan** No because it's a first year we started with a production capacity of 500 MT a day and as you know, I think we spoke about this in October, we had started production only around 3<sup>rd</sup> of 4<sup>th</sup> of September. So we have been slowly but steadily ramping up and it's taken us about three months to come to 1500 MT. And, therefore, since we are operating at significantly lower than designed capacity. So we lost money in the 1<sup>st</sup> operating quarter in that sense.

**Bhavin Chedda** If you can give us anything on right now what are the spreads running at and conversion cost running at?

- Raghunandan** I think conversion cost and all is too premature for us to talk about, because as I said it's just started up. And the premiums in October-November were up to about \$ 120 then they came down to December to about \$ 50. They went back in January beginning to about 80-90 and yesterday night they closed at about \$68. It's a very volatile market as you may have watched the raw sugar internationally. The white sugar market has been relatively calm though increasing steadily moving upward. But the raw sugar has been very volatile. We have seen even \$60-\$70 price increases and drops on any given day, if it's in the past it used to be taking place over six months and not an daily basis.
- Bhavin Chedda** Sir my last question, at what price has been the inventory valued at and how much is the inventory as of now?
- Gopalakrishnan** There are two types of inventories we are having. We are having about 15,000 MT of Raws which are valued at the realizable value. And we have about 6,000 MT of imported white which are again valued at realizable value. What we did was, we had contracted to export these materials out of India. So we are contracted at about Rs. 30,000 and these are valued at those rates. Sugar produced in the country, we didn't have much of those, at the end of December. We just had about 11,000 MT. And those were valued at the cost of production which was about Rs. 25,000/MT
- Bhavin Chedda** Okay thanks a lot.
- Gautam Chhaochharia** I have one question on the Nutraceuticals business. Is there any development on the acquisition in the US in terms of distribution side and products, which you were talking about earlier?
- Sajiv Menon** We have a 51% stake in US Nutraceuticals and what we are working on is to introduce a number of formulations which the company is selling into market.
- Gautam Chhaochharia** Okay and in sugar specifically are you exploring even more acquisitions in India or outside India?
- Gopalakrishnan** Right now we are focusing on the couple of acquisitions made in the last one year Sadashiva and Parrys Sugar.
- Raghunandan** We could however have a look, if it is at the right price.
- Rishabh Bothra** Just wanted to check on our group company Parry Infrastructure. We had some, as you said, land in Kakinada, alongside the Kakinada refinery. Have we disposed off that investment or is it still on books?
- Raghunandan** It's still with us.
- Rishabh Bothra** Okay thanks.



- Bhavin Chedda** If you can give the crushing target for FY11 and for the next year on a fiscal basis, if possible. We have crushed 20 lakhs for nine months so we will end with FY11 and what is the target for FY12?
- Gopalakrishnan** The planting is going on fine this year. So we should see good improvement compared to this year. But it's too early to make an assessment at this stage.
- Raghunandan** See Pongal and Sankranti have just finished. People have just harvested their existing crops. So now only all the agriculture activity would start.
- Bhavin Chedda** Sir I believe we had a crushing target around 50 lakh MT?
- Raghunandan** Our capacity today exists to crush 50 if cane is available to us.
- Bhavin Chedda** Okay so we do not think we will be able to achieve that.
- Raghunandan** That will be the peak. As you know that this business is so cyclical, 50 is the peak and it could be as low as 25 to 30 on the downside.
- Bhavin Chedda** Okay thank you sir.
- Gautam Chhaochharia** Thank you Mr. Raghunandan, Thank you Mr. Singhvi and Thank you Mr. Gopal.