"EID Parry (India) Limited Q3 FY 2016 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the EID Parry Q3 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kashyap Pujara. Thank you and over to you Sir!

Kashyap Pujara: Everybody and good afternoon to all of you. It is a great pleasure to have the management of EID Parry on the call with us today for discussion on the Q3 FY 2016 earnings. From the management side we are represented by Mr. Ramesh, the Managing Director and Mr. Suri who is the CFO. Without taking too much time I now hand over the floor to Mr. Ramesh. Over to you Sir!

V. Ramesh: Thank you Kashyap. Good afternoon to everybody. This is Ramesh here and I am happy to be part of the analyst concall for Q2 for the financial year 2015-2016. While Suri will take you through the actual numbers business wise, I would like to share a few important developments of the sugar business in Q3.

In terms of Central Government interventions I need to share with you three important developments that have happened which have a bearing in the sugar industry and the sugar business of EID Parry.

The first thing is the government announced a production subsidy of Rs.45 per tonne of cane with two conditions to be fulfilled one if one has to avail as the subsidy. The first condition was that there was a minimum export quota indicated by the government for each of the mills and we have fulfilled 80% of that quota.

On ethanol again, each of our three distilleries, a minimum targeted ethanol quantity have to be dispatched to the oil marketing companies. Subject to fulfillment of these two conditions the Government would release this Rs.45 per tonne of cane as production subsidy either directly to the farmer or in the event the company have paid the money the Rs.45 per tonne of cane would be a credited to the company's account.

Now in terms of exports, the total we have nine mills across three states of Tamil Nadu, Karnataka and Andhra Pradesh and total quantity that we have to export is approximately about 68000 tonnes. Out of the 68000 tonnes the company has already contracted for about 55000 tonnes and the balance 13000 tonnes also would get contracted and we believe this entire quantity of 68000 tonnes of sugar would get actually exported by September 2016 during the sugar year 2015-2016.

In terms of the ethanol blending program, which is a very important development as far as the sugar industry in India is concerned, the program actually has been launched which will give financial benefits that were actually passed on at the beginning of sugar year.

The first was complete exemption of excise if the ethanol is delivered to the oil marketing companies and secondly the exemption of excise in respect of molasses which is produced during the sugar year 2015-2016 and also used for manufacture of ethanol for supply to the oil marketing companies. Supporting this the Government also announced landed prices of ethanol at we have key installations in fact prices are more or less uniform across the country depending upon the distance of the mill to the oil installation and I would say the rates are fairly attractive because if you consider the two benefits of excise duty both on the raw material and on the finished products, the effective price that the mill will get is worked out to Rs.45.

The total quantity that has been allocated to the EID Parry Distillery is about 276 lakhs litres and as of now we are quite confident of fulfilling the entire quantity in Andhra Pradesh and in Karnataka. As far as Tamil Nadu is concerned we are still awaiting the State Government approval for diversion of molasses for manufacture of ethanol.

So the third important development was in terms of the cess, which the Government has actually notified yesterday additional Re.1 per kg of cess. The earlier cess was about 24 paisa per kg, it has now moved to Re.1.24 paisa per kg and Government is proposing to utilize this cess for financing the Rs.45 per tonne for production subsidy which I spoke few minutes earlier.

As far as the industry is concerned, we would be passing on this to our customers effective yesterday and therefore it would not have an impact of such as far as the P&L of the company is concerned.

Now in terms of the minimum export quota is concerned at all India level the total quantity that the country mills need to export is about 3.2 million tonnes while EID Parry will fulfill its entire quota of 68000 tonnes over the sugar year, we believe that the final quantity that may actually get exported from the country is about 1.5 million tonnes because there are quite a few mills which have taken a view that instead of doing the export at a loss they would actually sell in the domestic market and they were prepared to lose the Rs.45 per tonne of subsidy. EID Parry has not taken this view and therefore we would go ahead and fulfill our commitment of 68000 tonnes of exports but this has definitely had an impact in terms of sugar prices. Sugar prices have started moving up during the last few months and I would say one of the important reasons the company has been able to register performance in line with the quarter three of previous year versus the fact of sugar prices actually have improved. Even in January I think the sugar prices have further marginally improved and actual realization of during the month of January was about Rs.27 per kg.

Going forward in terms of sugar production, it is estimated at about 26 million tonnes during the current sugar year 2015-2016 therefore in terms of the sugar balance given that the fact that we estimate the consumption at about 25.5 million tonnes and an export of about 1.5 million tonnes. The stocks of sugar are expected to come down from a level of 9.1 million MT as of October 1, 2015 to a level of about 8 to 8.1 million MT as of September 30, 2016 and therefore the lower production, which is about 8% lower than last year. We are not expected to significantly impact the prices further upwards but just one point which I want to share with you is that if you see the actual planting during the last four months of the sugar year across the country the actual planting fresh planting has been at much lower levels than in the previous year and therefore there is a belief that going forward to the sugar year 2016-2017 the actual sugarcane availability and sugar production during the sugar year 2016-2017 could be even less than 26 million tonnes. However details of what is actually been planted and therefore estimated sugar production would be known only around end March or early April 2016 only by when we will probably able to predict as to how the sugar prices will move but definitely as far as this quarter is concerned we expect that the sugar price will stabilize at the current levels.

On a very general level I can only tell you that given the fact that the stocks are expected to marginally come down by about a million tonnes during the sugar year and during the next year even assuming the government does not continue the export program, the fact is that we would continue to push aggressively ethanol blending program. As of now in terms of ethanol blending program, the country requires about 266 Crores litres of ethanol for a 10% blending. What has been tendered by the sugar mills for the current sugar year is about 120 Crores litres and therefore we are talking of about 4.5% approximately is what is likely to get blended into petrol as far as sugar year is concerned and with Government policy to ensure that at least 20% of all fuel is from naturally renewable resources by 2017, I think there is a big push for ethanol being given by the government notwithstanding the fact that the oil prices have been coming down while they are holding to the current ethanol prices. As far as sugar year and financial year 2016-2017 EID Parry should be definitely much better than what we saw during the current financial year which was impacted by very low sugar prices especially in the first seven to eight months of this financial year. So this is a very, very broad background I wanted to give it to you share with you in terms of the sugar industry and EID Parry's position specifically on ethanol, cess and exports. So I will now request my colleague Mr. Suri to take you through the numbers and after which would be happy to take on any questions that you will have. So now over to Suri please.

V. Suri: Thank you Ramesh and a very good afternoon to all of you. I will just share some numbers of Q3 of 2015-16. As you all are aware the PBT loss for the quarter actually has come down from 45 Crores last year to about 43 Crores this quarter. We had a loss of about 52 Crores, in Q2. So the situation is getting improved based on the sugar prices.

As far as the operating parameter is concerned I will start with sugar. Sugar during the quarter we crushed 8.3 lakh metric tonnes of sugarcane corresponding figure was 8.1 last year. The recovery improved by about 0.1% during the quarter on a Q-on-Q basis. We produced about 80000 tonnes of sugar during this quarter but sold more than double of that at about 1.7 lakh tonnes of sugar. So it has been a very, very good quarter in terms of the sales we brought down the sugar stock to about 90000 tonnes.

As far as the export is concerned we have now sold about 39000 tonnes for the year. The cumulative sales for the year have been about 5 lakh tonnes. The selling price during the quarter has improved from Rs. 25000 last year to about Rs. 25500 in this quarter but compared to the corresponding quarter last year the same period we had a good price of Rs.29000. So still there is a gap of about 3500 per metric tonne during this quarter.

The sugar selling price as Mr. Ramesh was sharing has improved and currently it is an average about over Rs.27000. So the situation in this quarter will be much better than what we saw in Q3. As far as cogen is concerned the power generation for the quarter was about 1000 lakh units against 800 lakh units last time, which is about 25% increase. As you know we have been using coal in Tamil Nadu for producing power. That is one of the reasons for higher power generation by about 20% than the last year of the corresponding quarter.

We exported about 650 lakh units against 480 lakh units last time, which is about 35% increase. The rate also improved from about 4.7 last year to about 5 on Q-o-Q basis and then on the distillery side the alcohol actually we had a sale of about 210 lakh liters versus about 170 lakh liters previous quarter, which is about 24% increase but the price continues to be down in Tamil Nadu because of the VAT which has been present for sometime at 14.5%. So that is putting a lot of pressure on the alcohol price. So against last year same time we had selling price of about Rs.45 per liter is now down to about Rs.39 per liter in terms of the overall pricing on the alcohol sales, which include the partly ethanol.

As far as the bio business is concerned we had at the consolidated level the bio-products revenue was down from 96 Crores to 86 Crores. It is about 8% lower than the last year. This is primarily because the neem-based pesticide in domestic was affected to drought conditions in Andhra Pradesh and Karnataka and there was a flood in Tamil Nadu. With respect to exports, there was no problem. We have been doing as per plan. As far as nutraceuticals is concerned, we had lower sales again in nutraceuticals due to the flood situation in Tamil Nadu and we expect Q4 to make up for the sales loss in Q3.

At the consolidated level the bio-products profit was down from 15 Crores to 12 Crores. This is due to drought conditions in certain parts of the country and flood in Tamil Nadu. Valensa in US continues to do well.

As far as the capex is concerned we have been spending very less in capex in sugar business. The only expansion where we are spending money in EID Parry is in nutra business where we have now exactly adding ponds in our Oonaiyur plant to produce Spirulina and Chlorella a new products, which we have introduced in the recent quarter.

As far as the cost reduction program is concerned the program is still very much on. During this quarter we were able to reduce by another 3 Crores compared to that in the previous quarter. Overall for the year so far we have already reduced about 35 Crores.

As far as the interest cost is concerned, it is managed with lower working capital levels as we have reduced the stocks levels. The Soft loan which we received in September has also brought down that interest expenses. We have not borrowed any long-term loans during the quarter. The overall reduction in the interest cost is about 4 Crores during this quarter.

During the last quarter CRISIL downgraded the long term rating from AA- to A+ which represents adequate safety and this is still the best in the sugar industry as far as the CRISIL rating is concerned.

The short-term rating of EID Parry still remains at A1+ representing the highest safety. CRISIL has downgraded the ratings of our subsidiaries PSIL and the Parry Sugar Refinery, both of them have been downgraded by one notch. We do not expect any liquidity problems because of this. So this is the overall summary of all the operating parameters and important developments during the quarter. Now we actually leave it open to the floor for any questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sudarshan Padmanaban from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Goof afternoon Sir. Thank you for taking my question. Sir my question is more pertaining to your sugar business both on the standalone and the consolidated side. If I am looking at your sugar sales primarily I mean the difference between your standalone and your consolidated is increasing. So I mean is my assumption right that your JV is now swinging in terms of operation and which is why the difference is kind of moving up?

V. Ramesh: Correct. So during this quarter this Parry Sugars Refinery has been operating full swing and exported 1.4 lakh tonnes during this quarter that is the reason why you are seeing at a consolidate levels the revenue increased substantially.

Sudarshan P: What will be the capacity?

V. Ramesh: Also the sugar as I shared with you the sugar domestic, which we are selling, has doubled compared to the last quarter.

Sudarshan P: That is on the standalone side also that is what explains the difference in the standalone?

V. Ramesh: On the standalone side is because of the domestic and also in terms of the consolidated level because Parry Sugar Refinery has now been working full swing of during this quarter.

Sudarshan P: What is the capacity of Parry's Sugar?

V. Ramesh: The capacity to produce is 2000 tonnes per day.

Sudarshan P: We are operating at full capacity right now?

V. Ramesh: We are operating at full capacity.

Sudarshan P: Thanks a lot. I am joining back in the queue.

Moderator: Thank you. The next question is from the line of Vinod Malviya from Florine Tree Advisors. Please go ahead.

Vinod Malviya: Sir just wanting to know on the ethanol prices currently the ethanol prices, which is set at Rs.49 per liter. I mean what would be the likely scenario for FY2017 and going onwards?

V. Ramesh: The thing is what you indicated is correctly the approximate landed price at the installation is Rs.49 per liter. This includes the freight, which is actually incurred from the mill up to the installation. So when I said that it is Rs.45 per liter I was referring to the price ex-mill excluding the freight. So effectively what the mill gets after deducting the freight is about Rs.45 per liter. That is point number one. There is a change from how the oil marketing companies were dealing on ethanol in the earlier years. In the earlier years actually they used to invite various parties to quote for the prices and then they would go based on L1 and finalize quantities but the reverse has actually happened this year is they have actually indicated a price a landed price at the oil installation and asked each of the distilleries only to actually quote what quantity they would supply at that rates. Now clearly I wanted to tell you that you are aware the oil prices have actually fallen down that is point number one. Secondly the Central Government has also given permissions and has notified exemption of excise for ethanol supplies to the oil marketing companies and also exemption of excise for molasses used in the manufacture of ethanol, which therefore effectively oil marketing companies have allowed the sugar mills to retain this benefit sugar mills retain the benefit rather than take away the benefit and notwithstanding the oil prices which have been falling on a continuous basis they have held on to this prices. So now if you ask me and going forward as far as sugar year 2016-2017 is concerned it is a guess as to what prices would be fixed by the government but one thing that we are aware is and the government actually at various forums have clearly indicated their support very strong support for the ethanol blending program for essentially for two reasons. One is under the national fuel policy they need to ensure that 20% of fuel that they use is basically bio-fuel and renewable in nature and the ethanol supplied by the sugar mills actually meet that requirement that is point number one. The second point is the country saves foreign exchange and in a year in which the oil prices go up they would actually helped the country in terms of even stabilizing the oil prices. So we believe that and we hope I mean at this moment I fully hope because we would not know what prices the oil marketing companies would give the sugar mills commencing from November 2016 but I hope that we will retain the current prices they are actually offering us.

Vinod Malviya: So if the current price offered are you confident enough to raise your ethanol capacity?

V. Ramesh: There are a lot of companies in the country are investing and in terms of additional distillery capacities because they see the Government supporting the ethanol blending program in a very aggressive way. As of now EID Parry is not looking at any investment in adding distillery capacities; however, the total capacities that we have is we can make 228 kiloliters per day and assuming that we can operate a distillery for about 300 days, which will work out to around let us say 700 lakh liters of ethanol approximately. Possibly we supply 2 Crores liters probably this year. The balance quantity is ENA for human consumption. So in the short-term you will have people shifting from ENA to ethanol depending on the end prices offered for ethanol, that is point number one. Secondly, over a two to three of period you will have more distillery capacities coming in for manufacture of ethanol. Thirdly, people also looking at new technologies but that is may be a five years down the line, which are presently available globally but as of now probably that could take many years to come.

Vinod Malviya: So is there any reluctance on the state government to divest the molasses for a fuel ethanol rather than going for an ENA?

Ramesh: At this moment, let us take EID Parry alone, we are operating in three states Tamil Nadu, Andhra and Karnataka. As far as Andhra and Karnataka is concerned there is no issue and in fact we hope to supply not just 80% of our quota but 100% of our quota that the oil marketing companies want from our two distilleries at Haliyal in Karnataka and Sankili in Andhra Pradesh would get supply. As far as Tamil Nadu is concerned there is some reluctance from the Tamil Nadu Government to allow diversion of molasses to ethanol because Tamil Nadu is a fairly large alcohol consuming state.

Vinod Malviya: That is all from my side.

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

Achal Lohade: Good afternoon Sir. Thank you for the opportunity. My question is basically on the cane cost. If you could elaborate what is the cane pricing in each of the state and how are you dealing with it Sir?

V. Ramesh: I will take it state wise. You must be aware that the Central Government has notified Rs.2300 per tonne of cane as the Fair and Remunerative Price (FRP) for the sugar year 2015-16. So what we are paying today in Andhra Pradesh is the FRP. We are paying about Rs.2300 per tonne for 9.5% recovery in Karnataka. So if the recovery is more then you have to pro-rate increase the cane price. So as of now we are following exactly the FRP both for Andhra and Karnataka adjusted for recovery. As far as Andhra is concerned we are paying at FRP because the average recovery is just at 9.5%. In Karnataka, the actual payment is more because the average recovery. Ie. more than 9.5%. As far as Tamil Nadu is concerned we are bearing additional transportation costs, which should be approximately Rs.140 to Rs.150 per tonne. So the effective cost of cane landed at the gate mill would be around Rs.2450 per tonne.

Achal Lohade: Sorry Rs.2450 per tonne for Tamil Nadu?

V. Ramesh: And Rs.2300 pro-rated for Andhra and Karnataka.

Achal Lohade: So, Karnataka would be closer to Rs.2600?

V. Ramesh: Yes, you see the thing is we have got three mills and each of the mills have got recoveries ranging from +12% to 11.5% so it would range from around Rs.2600 to maybe about Rs.2800 plus.

Achal Lohade: But that is the landed cane cost Sir or is there any additional cost to that?

V. Ramesh: Yes, it is the landed cost. So, basically when we talk of FRP we are talking of landed at the gate inclusive of harvesting and transportation and therefore the numbers I am talking is inclusive of harvesting and transportation.

Achal Lohade: I was just wondering the recent Tamil Nadu government's announcement about the SAP of 285 what is the status of that in terms of the litigation?

V. Ramesh: As far as that is concerned, currently it is with the High Court.

Achal Lohade: Got it. If you could also talk about what was the cane cost effectively last year same time?

V. Ramesh: See as far as Tamil Nadu is concerned the cane cost was the same. I mean last year was also we were paying Rs.2300 plus for transportation so about Rs.2450 therefore the cane cost was last year and this year remains the same. As far as Karnataka was concerned the FRP was Rs.2200 per tonne whereas this year it is Rs.2300 per tonne so effectively the cane cost has gone up by about Rs.100 per tonne or if you take sugar it is about Re.1 per kg, very approximately the cane cost has gone up by Re.1 per kg in Karnataka. As far as Andhra is concerned we are paying at about the same price as last year so in fact the cost of cane in Tamil Nadu and Andhra would be same as last year. Karnataka cane cost has gone up by Rs.100 per tonne for 9.5% recovery.

Achal Lohade: Got it. If you could also talk about what is the average cost of production at company level for nine months?

V. Ramesh: One of the thumb rules that we have always been sharing is that the conversion cost is about Rs.4 per kg and therefore if you want to know the cane cost, it is Rs.2300 divided by 9.5% and conversion cost is about Rs.4 per kg.

Achal Lohade: This Rs.4 is net of byproducts or it is a gross cost Sir?

V. Ramesh: Gross.

Achal Lohade: What would be the transfer pricing policy for molasses and bagasse?

V. Suri: Bagasse is about Rs.1500 and molasses is Rs.4800.

Achal Lohade: I was just wondering we apportioned the cane cost to these two divisions or we transfer the byproducts?

V. Ramesh: It only goes to sugar.

Achal Lohade: Thank you. I will come back in the queue.

Moderator: Thank you. Our next question is from the line of Chintan Sheth from SKS Capital and Research. Please go ahead.

Chintan Sheth: Thanks for taking my question. Your commentary on exports side, you estimate exports figure in this current year would be around 1.5 million MMT?

V. Ramesh: At this moment it is a guesstimate because what has gone out of the country till January 31 is about 900000 tonnes, and as far as except in Tamil Nadu where we have a special season that is we also actually harvest and produce sugar during the months of July, August and September across the rest of the country the season actually closes by April, and of course there are a lot of news items in Maharasthra for example, some mills have actually already started closing down because of severe drought situation. So given the fact that the sugar crushing would generally end across the country by around end April, we believe that probably another 0.6 million tonnes would go out of the country. I mean if you ask me is there a basis, I do not have too much of a basis but the guesstimate is that what would actually, I mean it can be a few percentage this way or that way, but I think this is our estimate an this is how we are actually at least basing our internal decisions at this moment of time.

Chintan Sheth: So 4 million tonnes will go out and 1.5 million?

V. Ramesh: Out of 4 in any case, it was 80% to go which is 3.2 so we believe that half of that is what will be expected to go out of the country.

Chintan Sheth: Sir coming back to your inventory some data point. What will be the inventory and costs of inventory as of December?

V. Suri: As of December we had about 90000 tonnes of stock.

Chintan Sheth: At what cost?

V. Suri: Cost was 26000.

Chintan Sheth: 26000, and gross borrowing as on date standalone plus consolidated?

V. Ramesh: We have a borrowing of about 1500 Crores and in terms of long-term it is about 1000 Crores and the short-term 500 Crores.

Chintan Sheth: That is in standalone entity?

V. Ramesh: Standalone entity, correct.

Chintan Sheth: Thanks.

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

Bhavin Chheda: Can you please give us Distillery number.

V. Ramesh: We will be selling 1.8 Crores liters.

Bhavin Chheda: This is for the sugar season?

V. Ramesh: For Q4 alone.

Bhavin Chheda: 1.8 Crores liters in Q4?

V. Ramesh: Yes.

Bhavin Chheda: Just averaging on crushing, how much you can generate on a distillery basis, I was trying to count that number.

V. Ramesh: Actually if you really see approximately the broad formula is you think 4.5% molasses and the yield of 250 liters of alcohol per tonne of molasses. I am just giving you some broad numbers but I think that should get you close to the number of what we are looking at.

Bhavin Chheda: Sir, in your distillery the break up between the products would be rectified spirit ethanol what would be the rough breakup in percentage terms?

V. Ramesh: See approximately as far as rectified spirit is concerned for the year it will be about 100 lakh liters. As far as ethanol, I am referring this to this financial year, I am not referring to the sugar year, so as far as ethanol it would be around 1.2 Crores liters and ENA would be around 4.2.

Bhavin Chheda: ENA 4.2 Crores liters?

V. Ramesh: Yes.

Bhavin Chheda: What are the current prices if you can just update, ethanol as you said 45 peg factory?

V. Ramesh: The price of 45 is only applicable for the last two or three months of this year. The earlier prices are much less.

Bhavin Chheda: So ethanol prices are applicable from October 1 right?

V. Ramesh: Not October. It is actually applicable more from November because you see this exemption of excise and all is only for molasses, used out of sugarcane crush during the current sugar year. So, basically whatever opening stocks we had we did not have any excise benefit. So if you ask me approximately you can take on an average you take realization of Rs.40 per liter for the year.

Bhavin Chheda: For ethanol?

V. Ramesh: For all the three products put together.

Bhavin Chheda: It would be 40, which will eventually move now to 44 to 45, right?

V. Ramesh: As far as the rectified spirit is concerned, which approximately accounts for about one-sixth of the total production is only getting at about Rs.33 to Rs.34 per liter whereas the rest five-sixth of the production would be between 43 and 45.

Bhavin Chheda: Sir, power generation number would be how much, like power generation and power merchant sales?

V. Ramesh: As far as this year is concerned, they may take it at 40 Crores units approximately.

Bhavin Chheda: 40 Crores merchant sales?

V. Ramesh: Yes, correct.

Bhavin Chheda: This would be roughly at Rs.5?

V. Ramesh: Yes correct.

Bhavin Chheda: One number would be on the refinery side, how much you may do Sir?

V. Ramesh: You are referring to the Parry Sugar Refinery?

Bhavin Chheda: Parry Sugar Refinery.

V. Ramesh: It will be about 4.2 to 4.3 lakh tonnes for the year.

Bhavin Chheda: Next year how much you may do Sir?

V. Ramesh: I was telling you when I say you take it as of now it is 2000 tonnes per day 250 days you take it like that.

Bhavin Chheda: 2000 TPD, right?

V. Ramesh: I am only saying that to achieve consistently 2000 tonnes per day, day in and day out is difficult but a broad thumb rule you can take it as 5 lakh tonnes for the next year.

Bhavin Chheda: Here we are able to make a conversion margin?

V. Ramesh: Which one?

Bhavin Chheda: In the sugar refinery right now what would be the spreads be?

V. Ramesh: See as far as the Parry Sugar Refinery is concerned, I think for the Q3 and Q4 I think progressively we are moving towards the spreads are equaling our cost, so probably you would have a minor plus next year.

Bhavin Chheda: Minor plus next year, so you are saying the spreads are equaling cost at EBITDA level right?

V. Ramesh: No at the PBIT level.

Bhavin Chheda: Normally at EBITDA level Rs.2 is the conversion cost, right? Rs.2 per kg is the conversion cost, right?

V. Ramesh: No. As far as refinery is concerned, it is from raw to white and here it is fairly large refinery therefore the investments are pretty high and also you have to consider the fact that when we talk of costs and the spread see again as part of spreads are concerned, you have to look at the cost of transportation of raw, which includes the freight from Brazil to Kakinada, from Kakinada Port to factory, white sugar from factory to port and so on plus the C&F expenses plus conversion, so we consider all these things when looking at the spread. So as of now you can take, the thing is last year if I look at the numbers we lost about 145 Crores.

Bhavin Chheda: At the PBIT level?

V. Ramesh: At the PBT level.

Bhavin Chheda: PBT level, FY 2015 loss.

V. Ramesh: Yes correct. So this year we believe it is going to be substantially less. I mean if you want to know just as of now cumulative of the Q3 is 57 Crores.

Bhavin Chheda: Nine month is 57?

V. Ramesh: Yes, so that is point number one. We believe that as partly as far as next year is concerned, since we have a fair amount of visibility in terms of spreads, hopefully this number will turn into positive.

Bhavin Chheda: Sir, one more thing on the refinery since this is the export oriented refinery and country needs to export close to 3.2 million tonnes, so can you not process the domestic raw and export it via refinery that will give you a big delta, right?

V. Ramesh: Now actually first of all you must know that this refinery is in the special economic zone. It is not a domestic unit

Bhavin Chheda: Yes, so it is in SEZ only for export purposes, right?

V. Ramesh: The unit is located at the special economic zone. As far as the export is concerned, the country actually use only export raw till last year. For the first time, the Government of India has said that out of the 3.2 million tonnes you can also export whites and refined sugar. Now what has actually happened is that India has been very fortunate this year because of fairly large white sugar imports by China, Myanmar, Sri Lanka, and some countries in Africa. So, in fact what is actually happening is that the mills are finding that it is more remunerative to export white sugar rather than raw sugar. So in fact most of the 1.5 million tonnes that is likely to get exported out of this country is going to be white sugar. So today there are not many offers for export of raw, because people are finding it more remunerative to export of white sugar.

V. Suri: Actually no body is producing raw now.

V. Ramesh: Therefore as a result of which maybe this advantage has not come through this year.

Bhavin Chheda: Sir, you are saying that the benefit of processing domestic raw at the refinery is not there.

V. Ramesh: Correct, for this year.

Bhavin Chheda: For this year it is not there else you could have used the domestic and exported and there would have been a big delta?

V. Ramesh: Correct, at least the freeze benefit we would have got.

Bhavin Chheda: Sir, what I understand is also the domestic guys to meet their export quota also they are selling at a loss, so I was wondering even considering that whether there is some amount of money, which can be made at the refinery. You are saying that delta is still not there?

V. Ramesh: As far as the Government is concerned, Government has linked this Rs.45 per tonne in production subsidy to export. So effectively what the mills are doing is they are effectively back working what is this Rs.45 per tonne of cane work out to in terms of exports because this Rs.45 per tonne of cane would be available on the entire cane crush during the sugar year irrespective of whether it is exported or served to the domestic market. Let us say the mill has to export 12% of the total production that will give you some broad numbers. And Rs.45 per tonne effectively works out to Rs.450 per tonne of sugar at 10% recovery.

Moderator: Thank you. The next question is from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: I just wanted to know what is the export FOB realization?

V. Ramesh: See FOB it has been approximating from beginning it started with about at a level of around $360 per tonne and thereafter it has gone up to about $400 per tonne.

HR Gala: What is the current level?

V. Ramesh: It is around this.

HR Gala: Around $400 per tonne?

V. Ramesh: Yes, I am referring to white sugar. I am not referring to raw.

HR Gala: White sugar, yes.

V. Ramesh: Yes.

HR Gala: Sir, another thing, I wanted to know that this ethanol blending program which currently we said has reached around 4%-odd, if it has to go to 10% how much of ethanol will be required?

V. Ramesh: The 266 Crores liters is a requirement of 10% for today what is being supplied this year is likely to be around 120 Crores liters so 146 Crores is what is incrementally required to get 10% and I presume that also will grow by a small percentage year-on-year so approximately we are talking about 150 Crores liters incrementally.

HR Gala: Sir, do you think that the existing capacities which sugar mills have got we can go up to 10% level without any problem?

V. Ramesh: No existing capacity will not take it beyond 180, 200.

HR Gala: 180 to 200 only.

V. Ramesh: Yes so basically additional investments will have to come or some state will have to clamp prohibitions and therefore get more E&A diverted to ethanol.

HR Gala: So what can be the capex that is required for setting up a say the optimum size distillery to make ethanol?

V. Ramesh: Actually it will be quite substantial. The thing is there are different estimates going from 50 to 100 Crores depending on what is the kind of affluent generation you want and all that even for a 40 KLPD kind of a distillery.

HR Gala: 40 KLPD okay but do you think any proposal is there with the sugar mills?

V. Ramesh: I think quite a few mills in North India actually are investing in distillery.

HR Gala: I see because the prices are remunerative.

V. Ramesh: Definitely Rs.45 per liter is going to be attractive. I think the most important thing is that it is fixed for the year so there is price visibility. There is also assurance in terms of quantity that is to be lifted by the oil marketing companies. There is a complete support right up to the top in the Governmental level. There is a commitment to increase the biofuel to about 20%, which is a very aggressive number they have taken by 2017. So at least for the next say three to four years while the current Government is there I think the support will continue.

HR Gala: If it is 20% it will be say around 500 Crores?

V. Ramesh: We understand the Union Minister already spoken to the various automobile companies to start working on their engine configuration changes to take up ethanol. Of course if you look at the Brazil model you got actually three types you got 100% ethanol to blended ethanol to somewhere blended ethanol going from 10-90 to going up to 25-75 and 50-50 and so on. You see 27% is the average blending of ethanol in petrol at Brazil, have achieved over a last 40 years.

HR Gala: So what I was asking that for 20% blending what would be the total requirement. It will be double 200.

V. Ramesh: You have to just double it.

HR Gala: So overall how do you see the prospects like the margins have not been very good in distillery?

V. Ramesh: As far as sugar you have to breakup the three into three businesses if you take. I think distillery going forward should get much better margins than it did in the previous years largely because of the ethanol push and what happens is when the ethanol prices I am getting Rs.45 per liter for ethanol I should get similar prices for ENA also. That is point number one. So average price for distilleries will be better. As far as the cogen business is concerned it depends on the total power lot of capacity is coming up. The Central and the states are increasing wind and solar power. So I do not think the power rates can go up too much. Thirdly I think 2016-2017 should be a much better year for sugar because you are going to see a further drop in production from the current 2015-2016 level.

HR Gala: So do you expect sugar to make overall profit at PBIT level in next year?

V. Ramesh: We hope so.

HR Gala: Thank you very much. Wish you all the best.

Moderator: Thank you. Sir we have another question in the queue that is from the line of Balwinder Singh from B&K Securities. Please go ahead.

Balwinder Singh: Thanks for the opportunity. Sir firstly if you can just highlight towards sugar realization in January was it Rs.27 if I am not wrong?

V. Ramesh: Average 27.

Balwinder Singh: What it is currently as we speak now?

V. Ramesh: It is at the same level.

Balwinder Singh: Same level at Rs.27.

V. Ramesh: I am only saying the rate can go by 0.10 or 0.20 paisa here and is not going to be very different from what it was in January average.

Balwinder Singh: Okay and probably for next year FY2017 we will have a clear view by the end of March?

V. Ramesh: Yes by that time people will know what is likely cane planting and therefore what is the estimate sugar production. As of now we are expecting it to be lower in current year.

Balwinder Singh: Sir given that current realizations are at around Rs.27 and you also highlighted that inventory will be something like 8 million metric tonne?

V. Ramesh: Yes prices should be better.

Balwinder Singh: Sir to let us say if production goes down by hypothetical example if production goes down by two million MT next year then where do you see sugar prices can they go back to?

V. Ramesh: What the government will do is today this year I was telling 1.5 million tonnes of exports is happening. That would become zero. So to that extent immediately the shortfall will be addressed to the extent of 1.5 million. The question is what is the extent of shortfall beyond 1.5. So that is what will determine to what extend the prices can go up.

Balwinder Singh: Sir till 1.5 I mean sugar prices will more or less remain at these levels currently only?

V. Ramesh: No as far as they should marginally improve I think from here.

Balwinder Singh: But for significant improvements by say Rs.3 to Rs.5 improvement if required then production should be lower by more than 1.5 million?

V. Ramesh: No much more than that.

V. Suri: Also it depends upon the exports. The export 1.5 million tonnes what Ramesh was saying if that happens to be a higher then only the prices can go.

Balwinder Singh: But that does not look like currently?

V. Suri: Does not look like at this stage.

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

Achal Lohade: Thank you once again Sir for the opportunity. Sir my question is more of a macro question if I look at the company we reported losses for last three consecutive quarters I understand the reasons we have been under stress the entire industry has been under stress, but I am trying to understand Sir bulk of the profit if I look at the past years also has been from the dividend at the standalone company level. I am trying to understand your thought process as to how do you look at the company over next two to three years. What is your goal first actually for this company?

V. Ramesh: In what terms you are saying for goal for what?

Achal Lohade: In terms of the production, in terms of the profitability part of it?

V. Ramesh: Basically we are working on three fronts. So directionally I am just giving what the three fronts are. One is bio-pesticide and Nutraceutical business are by nature at this moment definitely more profitable than sugar. So clear focus on the bio and Nutraceutical business will be point number. Secondly possibly we would look at some kind of debt reduction going forward and thirdly we are planning to do a lot of things to improve profitability. So we are working on all the three fronts at this moment of time.

Achal Lohade: Just one question you said there has been saving of 30 Crores plus in nine months in terms of the cost reduction. If you could elaborate a little bit on that?

V. Ramesh: Basically the thing is as far as fixed costs are concerned essentially if you ask me one is in terms of obviously employee cost. So with I think very tight reign in terms of employee cost related. What we have also done addition is that this year we have not run two plants.

We have nine sugar plants. We have not run two rather we have consolidated the cane in seven of the instead of the nine plants and therefore actually saved cots by not running two plants and lot of other things which we do in terms of other expenses to ensure that in a very difficult year. You actually maintain very tightly leash on cost.

Achal Lohade: Which are those two plants, which were not, or which were shutdown for the season?

V. Ramesh: One is the plant at Pondicherry. The second plant is also in Tamil Nadu called Pettavaithalai.

Achal Lohade: Just last question Sir in terms of it appears that our company is not a pure play on sugar neither on the bio pesticides, I am just trying to understand your thought process do you see a eventual looking at the comfort structuring to have separate businesses?

V. Ramesh: No as of now I think you are speculating. There is no such idea at this moment of time.

V. Suri: At this point in time we want to continue the same structure.

Achal Lohade: Thank you Sir.

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: Thank you everyone for being on the call and thanks to the management of EID Parry for being present today. Thank you Sir.

V. Ramesh: Thank you Kashyap. Thank you everybody.

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