



“E.I.D. Parry India Limited Q2 FY19 Earnings
Conference Call”

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(INDIA) LIMITED
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S. Suresh:

Good afternoon everyone. I would like to give a brief overview of the market updates on the production and sugar stock balance and also about the key policy changes and notifications which have happened during this period and then Mr. Suri will take you through the finer details.

In sugar year 17-18 we had closing stock of almost 10-11 million tons. The production will be around 32.2 million tons based on current year projections, ISMA estimate have come down from a level of 35 million tons to 32 million tons. We are expecting a drop in the overall sugar supply scenario for the sugar year '18-19, predominantly the impact is expected to be in Maharashtra and UP and little bit in Karnataka. We also expect our cane area to be similar lines than compared to our previous quarter estimates for the Full year i.e 10% increase in the cane area over the previous year.

The cane price announcement FRP for the sugar year 2018-19, had happened from earlier price of Rs.2550 per ton of cane at a recovery level of 9.5 to the the new price of Rs.2750 per ton at a recovery base of around 10% with the pro-rata reduction for recoveries up to 9.5%. Along with the announcement there was a notification saying that the government might increase the MSP that is Minimum Selling Price in correlation to FRP change. However, that change in MSP has not taken place during the last quarter. Our view on MSP is going to be higher, then the government export program may not go through. The mills may find selling in the domestic market itself to be a better option compared to export. Hence the MSP increase will not be taking place, but the net realization also will be to that extent brought down because FRP has gone up and the sugar sale price is not going up commensurate with that.

Sales quota release mechanism will be continued by the government and we can see relatively better realization because very less quantity of sugar is being made available in the market which is being allowed by the mills to be sold in the market. However, during the period government has announced 5 million MIEQ that is the export quantum with the production subsidy of Rs. 8.33 per kg plus some transport subsidies as well which will supersede the earlier 2 million announcement. However, this 5 million MIEQ should definitely lead some sort of stability to the prices because as you see the 32 million is expected production for the current year and we had an opening stock of almost 10-11 million tons. Next year consumption is expected to be around 26 million tons. So, with this 5 million tons going out as an export, the country will still have almost 12 million tons as a closing stock as of September 2019. Already there is a 3 million buffer stock announced by the government so net of the buffer stock is almost around 8 to 9 million ton should be the net closing stock which will be made available as of 30th of September 2019. This translates to a roughly 46% of the overall consumption for the year which is a bit very high level of stocks. However, if there is going to be a further downside in terms of the cane availability because of the drought conditions which are being reported in parts of Maharashtra and UP, then around 1 or 2 million ton swing in the downside can bring down this closing stock level to that equivalent quantity.

Coming to the ethanol aspect, the Government had announced the average prices for ethanol made from C-molasses, B-heavy molasses and as well as from cane juice. There has been call

for the tender by the OMCs. We had also participated in the tender including for B-heavy molasses based Ethanol, on which Suri will share the details. . During this sugar year 18-19, we expect close to around 500,000 tons equivalent of sugar maybe diverted to the B-heavy. Other aspect , due to restricted release quota, our quantum of selling into the trade channel is being brought down as we are selling more into the institution and the retail channel. So the realization was better in spite of having an MSP of around Rs 29 per Kg, our realizations are actually better than Rs 29, somewhere around Rs. 4 over and over the MSP levels.

So, with this I would like Mr. V. Suri to take you through the finer details

V Suri :

Thank you Suresh and good afternoon to all Participants. I am extremely happy to be part of the analyst call to share key information of the financial performance of the company. Again, I would like you to remember the preamble which I had given in last quarter that we have hived off through the bio business to our subsidiary , Coromandel International Ltd with effect from 1st April 2018. So, as per the Indian Accounting Standard we have now drawn up both '17-18 and '18-19 accounts wherein bio business is shown as discontinued business. The company has also divested along with the bio products business , the shares it held in Parry America which is an integral part of the bio business to our subsidiary Coromandel. Because of this, we have recognized the profit of Rs 208 Crores on the sale of bio products business and Rs. 35 Crores on the sale of investment in Parry America during Q1. Currently the Sugar and Nutra businesses are shown as part of continuing business.

On a standalone basis we had an operational revenue of Rs. 350 Crores which is a decrease of about 43% over the corresponding quarter mainly due to the release quota mechanism which was operative throughout the quarter. So, on an average we were selling around 24,000 tons per month against a normal average of about 45,000 per month so this drop is reflected in the top-line. On the YTD level also, our turnover is about Rs 800 crores which is about 21% drop for the corresponding half of last year, due to the same reason. The PBT for the quarter was about Rs.15 crores loss which is lower than the last year by about Rs.84 crores. Last year we did about Rs. 68 crores profit in the corresponding quarter. The PBT for the half year is a loss of about Rs.142 crores. We have reported a PAT of about Rs. 11 crores in the quarter and Rs. 65 crores for the half year.

On a consolidated level, the PBT was declared at around Rs.418 crores for the Q2 and we have also declared a PAT for the quarter about Rs. 250 crores.

As far as sugar operating numbers are concerned, we operated the plants only in Tamil Nadu. During the quarter we crushed about 5 lakh tons which is similar to the corresponding period last year. The recovery was better than the last year the corresponding period at 8.2%. We produced about 40,000 tons during this quarter. We did sales of about 72,000 tons and the average selling price was about Rs. 33 / Kg. Which is Rs. 4 more than the minimum selling price because of the sales mix , which Mr. Suresh has already explained. We carried about 1.5 lakh tons as of end of September valued at around Rs. 30 / Kg.



As far as cogen is concerned, we exported about 2.5 crores units at an average rate of Rs. 3 per unit. Currently we are doing export of Power only from Tamil Nadu units.

As far as distillery is concerned, we had a sale of about 126 lakh liters for the quarter and of which ENA was 87 lakh liters and ethanol 39 Lakh liters. The total average realization in this quarter was about Rs. 45 / Ltr..

Nutra business in India had a similar kind of performance like last year with the turnover of about Rs. 18 crores. But at the consolidated level the Nutra business continues to do well because overseas subsidiary both Alimtec and US Nutraceuticals are doing well. We had a turnover of about Rs. 120 crores which is about 9% better than the corresponding half year and the PBIT was about Rs. 7.5 crores against Rs. 4.5 crores of corresponding half year last year.

As far as CAPEX is concerned, we are actually now continuing to be very careful on investments. We invest only in the Karnataka and Andhra Pradesh plants. In Karnataka we have now invested in Refinery Plant to produce refined sugar , which will now start producing during this Quarter 3 in our Haliyal plant.

We also now intend to put ethanol plants in three or four plants for which we have got approval from the government for a loan at a subsidized rate of 50%. Otherwise all the CAPEX we only invest are for value addition, safety & environment and productivity improvement.

As far as loans and interest are concerned, we continue to reduce the loans. During the quarter we reduced further Rs. 125 crores in the long- term loans. It included about Rs.100 crores NCD which was redeemed in September 2018. As far as short-term loan is concerned, we availed Rs. 95 crores in Q2 for the buffer stock at 0% interest. With interest completely subsidized by the government.

The finance cost has been lower than the last year by about Rs. 4 crores. Against Rs.24 crores last time we had incurred only Rs.20 crores as we continued to have very tight control on the loans as well as the interest costs. During the quarter, we received dividend of Rs.62 crores from Coromandel at 350% per share. We also paid dividend of about Rs. 53 crores at 300% to E.I.D. Parry shareholders. Another area we continue to exercise control is on the expense side. Expenses have got reduced over the corresponding period by about Rs. 4 crores and also now our program of cost reduction continues in this tight situation in the Sugar industry.

Kashyap Pujara:

Sorry there was some breakage in the line so I could not get the volume figure clearly, could you just elaborate on the volume front, the recovery, the sales tonnage and also the sugar inventory I do not know whether I missed that?

V. Suri:

As far as sugar is concerned, we have crushed about nearly 5 lakh metric tons only in Tamil Nadu plant for the sugar special season, the recovery is about 8.2%. We produced 40,000 tons sugar sold 72,000 tons of sugar, average selling price was about Rs. 33/ kg and we carry about

1.5 lakh tons of sugar at around Rs. 30/ kg. As far as cogen is concerned, we exported about 2.5 crores units on an average price of about Rs. 3. We are now actually exporting power only in Tamil Naidu through IEX and there was no export in Karnataka and Andhra Pradesh.

Kashyap Pujara: Did you mention 86 lakh liters for ENA?

V. Suri: Yes, what we sold is 86 lakh liters of ENA

Kashyap Pujara: And balance is ethanol?

V. Suri: Yes, Ethanol is about 39 lakh liters.

Kashyap Pujara: And what is your sense on the realization split between ethanol and ENA?

V. Suri: ENA we sell at an average about Rs. 46 / Litre and ethanol we sell it at an average of Rs. 41 / Litre. For the last year it was Rs. 40 / Litre.

Ritika Garg: Could you give us an outlook on your refinery business Parry refinery?

V. Suri: Before going to Refinery business, we will talk about the international market. In the International market the spread between the New York and London continued to be under stress. Global situation in terms of the white premium are continued to be under stress, but from a refinery standpoint the operational efficiency of the refinery has been really at all the time best levels and refinery has been able to run to the fullest capacity utilization and any improvement in the white premium the business will start looking up very rapidly. You want some numbers on that specifically.

Ritika Garg: Yes.

V. Suri: Actually we have produced during the period 2,09,000 tons and we have sold close to 1,48,000 tons of white sugar.

Ritika Garg: Our refinery business is in the loss right. In FY18 also we incurred a loss in Parry refinery?

V. Suri: Yes, there is a loss which is happening today because of two reasons. One reason is that the spread has come down from a level of about \$50 to now about \$35 so that is one main reason. And second reason is also the because of the run-up on the dollar we had an MTM which we had to provide for the books of accounts which will also be reversed in the subsequent quarters.

Ritika Garg: Sir how much was the MTM in this quarter?

V. Suri: About Rs 20 crores is the total MTM on account of FOREX that is around \$3 million.

Ritika Garg: And for the half year?

- V. Suri:** There are two MTMs involved - one is on the commodity hedging & the other one is Forex, MTM on commodity has actually now getting reversed in October as we had a run up in terms of raw sugar pricing during October. We are already seeing a reversal of these MTMs in the Q3. So, put together we have a MTM both in commodity exchange as well in FOREX. Of about \$8 million which will get reversed in the subsequent quarters.
- Ritika Garg:** Sir, do we expect the refinery business to be profitable this year?
- V. Suri:** No, we do not. Because of the spread issue is continuing this year also. We will have a loss but it will be reduced loss than what we saw last year.
- Ritika Garg:** Reduced by how much?
- V. Suri:** No We cannot give a real estimate because the dollar and the prices of the commodity are now swinging heavily. We are not in a position to give any numbers in terms of the year numbers. So, as of now we are now seeing that it is unlikely that we will make profit this year. So, we are only giving guidance that it will be a loss year.
- Ritika Garg:** And what are the CAPEX plans for FY19 and FY20?
- V. Suri:** CAPEX plan like how much do we plan to spend in capital expenditure in FY19?
- Ritika Garg:** Overall.
- V. Suri:** Before I give you the number I will explain to you that we are also now going to spend on the ethanol project. This is a very big one. Otherwise normally we spend a CAPEX of about Rs. 50 crores in the CAPEX. Because of the refinery in Halyal and also ethanol we expect the CAPEX to come to around Rs. 120 to Rs. 125 crores.
- Ritika Garg:** In FY19.
- V. Suri:** Yes FY19.
- Ritika Garg:** When will our ethanol expansion how much expansion are we doing?
- V. Suri:** The total project cost we are expected to be around Rs. 250 crores between 2018-19 and 2019-20.
- Ritika Garg:** The total project cost is Rs. 250 crores.
- V. Suri:** Rs. 250 crores across four plants.
- Ritika Garg:** So, how much are we increasing our capacity by?

- S. Suresh:** Yes, if you see the capacity increase we should be doing somewhere around 225 KLPD. We have got two unit expansion plans in Karnataka, one unit expansion plan in Andhra, one unit expansion plan in Tamil Naidu. So, we define it as a KLPD, Andhra 40 KLPD with Incineration Boiler basically this is a proposal which government has given to all the units in order to handle the effluent in a very effective manner. So, this may not add to your capacity as such. This Incineration Boiler is for a 40 KLPD facility. If you look at Halyal unit of Karnataka we are looking at additional 60 KLPD and another one is a Greenfield of 60 KLPD is being planned at Bagalkot. Tamil Naidu there is an additional line of 45 KLPD has been planned.
- Ritika Garg:** So, are we planning to increase our capacity by 225 KLPD?
- S. Suresh:** It should be around 150 KLPD Only because it includes investment in Effluent treatment handling also.
- Ritika Garg:** So, we are going to be increasing our capacity by more than 50%?
- S. Suresh:** Yes, correct more than 50%.
- Ritika Garg:** And when do we expect to finish this by?
- S. Suresh:** Ethanol season next year 19-20 December. Some of the projects happen in one-year time if you start investing normally the gestation period is roughly 12 months for the boiler erection etc. May be AP plant will take a little bit more time because you have to go through the process of MOEF and other approvals. Other two plants of Karnataka we have got all the approvals in place it is a question of getting the project commissioned and then get going. So, it should take somewhere around 12 months from now.
- Ritika Garg:** What is the situation for rainfall in Tamil Nadu like I have heard that there is a cyclone in Tamil Nadu now in this week?
- S. Suresh:** It is predicted as of now the rains are not much in Tamil Naidu. The Northeast monsoon has been actually evading us. It is not coming to the full blast there is suppose to be good flow in the next 12 days. May be this cyclone should bring in good rains that is what we are expecting.
- Ritika Garg:** Can we expect sugar season 18-19 to be much better than 17-18 in terms of production?
- S. Suresh:** We said we will do about 10% higher than the 17-18 because of a better cane availability in Karnataka and Andhra Pradesh.
- Ritika Garg:** And what about distillery, how do we expect our distillery to perform?
- V. Suri:** Yes, distillery will also be performing better because we have got this ethanol allocations which is about 200 lakh liters. Now we are also seeing demand for ENA for the second half. So, we will be doing better than last year as far as distillery is concerned.

- Ritika Garg:** cogen?
- V. Suri:** As cane Volume is expected to increase, Cogen volume will be in the similar line based on the crushing. We do not anticipate better rates in cogen because of the IEX in Tamil Naidu and also the rates in Karnataka & Andhra Pradesh are also at the same levels. The rates will be the same & export of cogen will be little better than last year.
- Ritika Garg:** And when do you expect our refinery operations to breakeven?
- V. Suri:** This year we are on cash breakeven level. Last year we made losses due to MTM issues. This time we expect a cash breakeven. Next year we should be able to do a breakeven.
- Akshay Ajmera:** I want to understand more about Nutraceuticals business how are we doing in that space and are we seeing any growth in the packed Spirulina and Moringa that we are selling I assume that we are also selling through Amazon and online stuff like that, so how do we see growth in nutra space can you please elaborate?
- V. Suri:** In Nutra space as far as spirulina is concerned; we are doing better than last year by 7% over the last year. And the most important news is that subsidiaries Alimtec and Valensa are doing well. So, if you look at the first half of the year we had a consolidated sales turnover increase by about 9% and profit increase is about 60% over last year. This is primarily because Alimtec and Valensa are better performing. Another product which is coming from India is chlorella. This product has stabilized now and we are now running out of stock for sales of chlorella. One more thing is on the lycopene. We have now put up a new plant in Pune which is now producing in full stream and this is also doing better than the last year. Overall, we expect Nutra to have overall performance indicators better than Last year. The profits will be in the same line like last year because we are investing money in the products and also in the plants.
- Akshay Ajmera:** And updates on the JV that we had with Synthite?
- V. Suri:** JV's BhoomiPooja is done, the JV is originally scheduled to be in operation from June 2019 and the project is on schedule.
- Akshay Ajmera:** Are you eying to supply kind of raw material to Synthite and they will process it?
- V. Suri:** The entire arrangement is that we will be supplying the Spirulina slurry to JV, the JV will be now extracting phycocyanin from the slurry and then export it to the foreign markets. Now currently we also have put a pilot plant in E.I.D. Parry. Spirulina slurry is going to the pilot plant and we are now extracting phycocyanin and then giving it to JV and JV is now selling. The first order has been done in the month of September.
- Akshay Ajmera:** So, we are extracting phycocyanin based on the technology provided by Synthite?

- V. Suri:** Synthite is actually an expert of extraction of colors and also nutrients from the basic raw materials. In this case we extract phycocyanin. So, the patent belongs to the JV but originally created by Synthite.
- Ritwik Sheth:** What is our gross debt and net debt figure on standalone levels?
- V. Suri:** We have a long-term loan of Rs 408 crores as of September which is reduction of Rs125 crores over the previous quarter. We have a short-term loan of Rs 125 crores which includes a buffer stock of Rs95 crores loan which is at 0% interest. We also had a cash of Rs 49 crores invested in the mutual fund as of 30 September.
- Ritwik Sheth:** In the call you mentioned that we have a quota of around 24,000, 25,000 tons to be sold, so when do you expect this for the industry to be relaxed and at what inventory level?
- V. Suri:** We have received 28,000 tons allocations in October and 31,000 tons allocations in November. So, now the numbers have improved as far as the quota release is concerned. We expect this to continue till the sugar season.
- Ritwik Sheth:** So, it will be higher for the coming quarters?
- V. Suri:** The government are now releasing higher quota. I think we should be allotted about 30,000 tons going forward
- Kashyap Pujara:** On the loan front, so could you mention what is the borrowing which is sitting in the refinery at the current point?
- V. Suri:** Refinery we have a long-term loan which is in the form of NCD so we have about Rs 235 crores in the form of NCD. In the beginning of the year we had Rs 330 crores. So, that has now come down to Rs 235 crores based on the repayments which you have made during the year and rest are all in terms of working capital which is based on the operating levels in the form of PCFC borrowed in dollars.
- Kashyap Pujara:** And what would that quantum be?
- V. Suri:** It is about Rs.700 crores.
- Kashyap Pujara:** And I am sure while we are having a tight control on cost over time I mean would there be a plan to basically reduce fixed cost to the maximum level possible by basically reducing the long-term loans across E.I.D. and refinery further down what do you think of that in selling noncore assets, stroke further operational efficiency what would be the roadmap on that one?
- V. Suri:** As far as the noncore asset is concerned by and large we have disposed off what we do not need at this stage. We have already generated about Rs 4 crores in terms of the NPA this year and we also have a plan to now generate another Rs.6 crores during the second half and we probably can end up with another Rs.30- 40 crores during the next year. Another thing is that

lot of surplus land has gone to Coromandel during the Bio Business sale as a Neem Plantation land. So, we do not have much surplus land as of now. So, from now we expect it to generate another Rs. 50 crores between this year and next year. As far as the operating expense is concerned, we have a cost control across all plants. Actually we are not operating three plants at this stage and all expenses of those plants have been cut down dramatically and we are generating as many opportunities as possible to reduce cost and if you see continuously we have been reducing the cost also & this is showing in the results.

Kashyap Pujara: Couple of questions on the sugar business per say or the industry level you did mention that you expect the sugar to be 32 in terms of production, but do you see a situation where that number can be further lower I mean given the drought like situations that have been the impact thereof, do you think that the ratoon itself is basically damaged and one needs to actually rethink about this 32 much lower?

S. Suresh: Now the crushing has to start, not much of crushing has actually started. Once it starts plus water should be available till the end of the crushing, so that should determine to what extent this quantum of 32 million tons is going to go down. So, depending on further water availability, it may have an impact for the next sugar season. As of now even if 32 million ton goes down to 30 or 29 your total available closing stock at the end of the year will be somewhere around 9 million tons which is once again a higher value.

Kashyap Pujara: No, but if we have 26 demand and 5 exports and if you have 10, 11 kind of closing stock and if the production comes down to 28, 29 then we would not have 9, 10 we would have reasonably lower closing stock end of next year cycle.

S. Suresh: If you are at 30, closing stock is expected to be 12.8 million tons. So, if you are going to go down by another 2 it is going to be 10.8, assuming 5 million export is happening.

Kashyap Pujara: Lastly before I go back into the question queue what is your view on pricing given that we are actually entering the election cycle going forward, do you see a chances where the sugar pricing is increased in the view that farmers do not have any arrear kind of situation and everything is smooth so do you see that kind of thing pulled out?

S. Suresh: As of now what we get a feel is assuming the arrears are getting closed and the market may find it own because there is no other pressure for the government to increase MSP as of now. If MSP is going to go up by Rs. 2 - 3 the retail price might go up also there is a possibility. So, it is a 50-50 and there is no compulsion on the government to increase the MSP as of now. But what might happen if market is going to trade the deficit which is expected because of the drought and other things invariably the market price will be relatively higher than the MSP. Today base prices is around Rs.29 of market see a defici, price may go up by Rs. 1 or Rs. 2 on its own. So, the market supply demand will base at the price equilibrium.

Nagraj Chandrasekar: Just had a question on the adherence of mills to this sale restriction for you it is 24,000, 25,000 tons a month and it has gone up a bit, how are all mills in all geographies adhering to these



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limit are you seeing instances where a lot of stock is being sold outside the prescribed limits or what is the sort of level of adherence in terms of percentage to reach stock sale limits that has been put by the government?

S. Suresh: As such we have not heard any reports of people trying to do so, because the moment they start going off Govt. issues show cause notices upon any deviation. Further, if it is going to be large number it will have a trailing impact on the price itself which is not happening. So, with this we can infer that there is not much of deviation from the prescribed limits.

Kashyap Pujara: Thank you so much to everyone and thanks to Mr. Suresh and Mr. Suri for answering all the questions.

S. Suresh: Thank you for joining us and spending this quality time with us. Thank you.