"E.I.D. Parry (India) Limited's Q1 FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the E.I.D. Parry Q1 FY'22 Earnings ConferenceCall hosted by DAM Capital Advisors Limited. As a reminder, 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal from DAM Capital. Thank you and over to you, sir.

Nitin Agarwal: Hi. Good morning, everyone and a very warm welcome to EID Parry's Q1 FY'22 Earnings Call hosted by DAM Capital Advisors. On the call today we have representing EID Parry management, Mr. S. Suresh -- Managing Director; Mr. Suresh Kannan -- Wholetime Director; Parry Sugar Refinery India Private Limited; Mr. Muthiah Murugappan -- Head of Strategy, Nutraceuticals; Mr. A. Sridhar -- Chief Financial Officer; Mr. Ramesh Kumar -- Senior Vice President, Finance; Mr. Biswa Mohan Rath -- Company Secretary.

Just as a point of note, Mr. Sridhar has been appointed as CFO only recently. So the financial questions will still be largely handled by Mr. Ramesh Kumar during the call.

I will now hand over the call to Mr. Suresh for making the opening comments and taking a call from thereon.

S. Suresh: Thank you, Mr. Nitin. Good morning, everyone. Thanks for joining the call. I would like to start off by saying that the company's operating performance for Q1 was almost in line with the performance of the corresponding quarter of the previous year. Sugar prices remained neutral for the quarter. Our debt reduction measures have definitely helped in reducing the finance costs. During the quarter, the sugar prices continue to be under severe pressure despite the crushing season getting over. This is on account of the carryover surplus and also the higher sugar production in the country and the release order mechanism. Industry has been expecting an increase in MSP for sugar for quite some time. It is long overdue. It is yet to come.

And I will now touch upon the international scenario. Brazil crop is expected to go down to 31 million tons. That might have some challenges in the fourth quarter of this current calendar year, that's why it's expected to be tighter during the time. India is expected to come in to fill up that gap. Already, you can see international prices going up. And then Indian sugar mills are also trying to contract for some exports. Maybe if the prices are lucrative under OGL itself, people might be contracting out. That is another avenue for the Indian mills to liquidate the stocks as well. India is expected to come in and fill up the shortage requirements of the international market during the period of October to December.

Coming into the Indian Scenario, the current season of 31 million tons, some good diversion around 2, 2.5 million tons to the ethanol is expected to happen. The coming sugar year is also expected to have at least a good 5% to 10% increase in the sugar crop. If that is going to be the case, incremental output is expected to get diverted more towards the ethanol. Already, we see almost close to 3 to 3.5 million equivalents in terms of sugar which is expected to get diverted to the ethanol stream. However, the overall sugar surplus situation in the country, the person start supplying is putting enough pressure on the sugar prices. So we are yet to receive information from the government in terms of the MSP because that is long overdue. Already, there are talks on the FRP expected to go up, etc., So hopefully, before the end of this current sugar season and starting of the next season, government should come in with announcements regarding the MSP and the FRP if at all is going to be there.

Now I hand over this call to Mr. Ramesh Kumar, who will share with you the Financial-related numbers and Operating Parameter Numbers. Thank you.

Ramesh Kumar: Thank you, Suresh, sir. Good morning to everyone. It's very nice to meet you all through this audio conference and thanks to DAM Capital for hosting this Audio Conference Call. I hope everyone is doing well, remaining safe during this pandemic period because the third wave is expected to come at any point of time, please remain safe, that's a word of caution before I get into the financial numbers.

The Financial Performance for the Company for Q1 FY'21-22: The revenue of the company for the Q1 was around Rs.449 crores which is lower by 8.55% over the last year number of Rs.491 crores. However, the decrease in revenues predominantly on account of the sales quantity could not happen because the lower release order which came in place, and also a reduction in the sugar price during the quarter as compared to the last year as Suresh has rightly said. Last year during this period, the MSP was hovering and people were having higher price selling during the Q1; however, now, the new MSP is still not announced, the prices are a little lower than what was sold in the last year first quarter.

Profit Before exceptional item for the current quarter was around was a loss of Rs.43.9 crores as against previous year, the loss for the first quarter before exceptional item was Rs.57.52 crores. PAT for the quarter-ended June '21 is a loss of Rs.33 crores as against a profit of Rs.226 crores in the previous year; however, in the previous year we had an exceptional item i.e 2% equity share sales in CIL, which helped us to post higher profit in the Q1 in the last year. However, this year we don't have any such exceptional items. However, when you compare PBT before exceptional item, the loss is lower by almost Rs.15 crores.

If you look at the PAT for the quarter ended, it's a loss of Rs.33 crores against the profit of Rs.226 crores; however, on a consolidated basis the PBT for the company for Q1 was a profit of Rs.379 crores as against last year first quarter profit of Rs.276 crores. This profit is predominantly on account of very good results coming from Coromandel CIL results. PAT for the quarter was Rs.280 crores at the consolidated level as against Rs.130 crores of the previous year.

Let me now move to the Operating Numbers of the Business. As far as the sugar is concerned, the company crushed during this quarter around 1.46 lakh metric tons as against 4.12 lakh metric tons in the last year first quarter. Last year, we had a spillover due to lockdown challenges in Tamil Nadu, hence higher crushing was done during Q1; however, such scenario did not exist during the year, only normal crushing was continued during this year. Recovery was around 9.58% in the current quarter as against the last year of 8.24%. The production of sugar during the quarter was 0.14 lakh metric tons as against 0.34 lakh metric tons. Sugar sales for the Q1 was close to 0.97 lakh metric tons as against 1.02 lakh metric tons in the last year. As far as sales are concerned, states are still governed by the release order mechanism. We are ensuring that whatever quota is allocated to us is completely being sold; however, we had challenges during the first few months because of the logistics issues. However, we are trying to fulfill the quota which is allocated to us.

We also went on to complete our MAEQ quota. We have contracted all the MAEQ quota allocated to us. We also had sales of 0.36 lakh metric tons during the quarter. The stock carried by us during the end of the quarter was around 1.73 lakh metric tons. The revenue for the quarter from sugar segment alone is Rs.342 crores.

Now, I will move to the Cogen Segment. We had generated 2.76 crores units and exported 1.50 crores units during the quarter. The average rate was close to 3.30. And currently, Karnataka and Andhra are the only two units are in PPA; however, that is also getting expired before end of this year. Tamil Nadu is not in PPA. We are trying to sell through only IEX and third-party mode. However, during this quarter, IEX was at lower rate, even it was lower by Rs.2. Cogen revenue during the quarter was Rs.9 crores as against the last year of Rs.14 crores.

As far as the Distillery is concerned, we had produced the alcohol around 144 lakh litres and sold to the extent of 139 lakh liters at an average price of around Rs.57.7 during the quarter. The ENA sales were around 78 lakh liters and the balance is on account of ethanol. Distillery revenues was close to Rs.82 crores in the current quarter as against Rs.92 crores in the last year quarter.

I will also now give some more information on the other business of the company, like Nutra revenue on a consolidated basis was around Rs.74 crores in the current quarter, similar to last year number and on a consolidated level we had a loss of only Rs.0.43 crores in the current quarter as against the loss of Rs.3 crores in the previous year quarter.

On a standalone basis Nutraceutical business registered excellent performance during the quarter with 44% increase in the revenue compared with the corresponding quarter of previous year from 14 crores to 20 crores and we also had a good jump of 176% percentage in case of profits.

The consolidated Nutraceutical operations registered a loss before interest and tax of 0.43 crores as against a loss of 3.39 crores. On a consolidated basis, our loss was mainly due to expenses incurred on account of the **BTC** launch which we had in the US for the Flomentum brand which we launched in the US during last quarter of FY 21.

However, with respect to the debt numbers, we are ensuring continuously debt reduction is happening. During the quarter also, the long-term loan was at around Rs.101 crores as against Rs.200 crores at the end of the year. In case of short-term loan, we had Rs.155 crores as against year-end numbers of Rs.355. The finance cost has been substantially reduced, We will continue to focus more on this reduction program.

Now I leave to the floor for the questions if any. Thank you, all.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Shanti Patel from Shanti Patel Investments. Please go ahead.

Shanti Patel: My question is what will be the sugar scenario as far as the industry is concerned and as far as our company is concerned for the current year?

S. Suresh: Sir, thanks for your question. Regarding the sugar scenario for the company, we are expected to have at least a minimum of 10% to 15% improvement in the overall production compared to the last year. That is the situation. Country is also expected to have some good amount of increase as we are seeing the crop increase which is happening at least in our southern states.

Shanti Patel: I am talking about in terms of price also.

S. Suresh: Sir, price is going to be governed by so many other factors, that is an MSP just to comment. Today, we are operating under the release quota. So even maintenance of MSP is becoming a bigger challenge in many of the markets. That's what we have been seeing. Many of the states are not able to sell even at MSP. So those situations are expected to improve. I was talking about the sugar shortage in the international market, once that comes in, a lot of sugar stocks should get released into the international market, that should push the prices up in the domestic market, that's what the expectations is.

Shanti Patel: And what about ethanol scenario for the industry and for the company for the current year?

S. Suresh: For the company, we have commissioned the Bagalkot distillery, the new ethanol distillery has been commissioned in Bagalkot at the end of the first quarter. So that is going to add a good amount of volume to the ethanol sales for oil marketing companies. As far as the industry is concerned, as I was telling you, the current sugar year is expected to show around 2.5 million tons equivalent of sugar getting diverted to the ethanol stream. For the next sugar year, at least a minimum of 1 million tons additional will get diverted, the bare minimum. That's what we are seeing already. I think contracts are being made by the sugar mills with the OMCs for close to around 3-3.5 million equivalent of sugar. So that means any excess production is expected to get more diversion into the ethanol. That is the scenario for the country.

Shanti Patel: What is our installed capacity as far as ethanol is concerned and how much it is going to go up?

S. Suresh: last year, it was around 235 KLPD equivalent. This year with the addition of Bagalkot, it should be somewhere around 300 KLPD.

Moderator: The next question is from the line of Anupam Goswami from B&K Securities. Please go ahead.

Anupam Goswami: Sir, we have seen a reduction in refinery numbers and profitability. Where do we see when profits coming in? Last year, the refinery losses have come down, but when do you see going forward the refinery also will get the profitability?

Muthiah Murugappan: Thank you very much for your question. Refinery had a lesser sales from the first quarter of this year compared to the previous year, mainly because the buyer deferred the offtake of sugar due to prevailing very high freight levels for most of these markets. So since it is only a deferment of sale, we expect we should be on track for the rest of this year. And currently, our plans are to breakeven or to improve the profitability of the refinery as far as the financial year as a whole is concerned. First quarter was being only a deferment, does not reflect the true picture.

Anupam Goswami: Basically, due to lower volume, you could not benefit on the operating leverage, right, and that will be compensated in the rest of the year if things have improved, right?

Muthiah Murugappan: That's right.

Anupam Goswami: Sir, what is our sales quota? I have been tracking the sales quota, but what I have found it's got about 19% higher in the Q1. But you've said in opening remarks that your release order was lower. So can I know the number of your release order?

Ramesh Kumar: You're trying to compare yourself with the last year release order number; last year they reduced the release order because completely due to the lockdown itself which happened in the last year. This year, the lockdown did not happen, the shops are open, hence that quota numbers are higher than whatever percentage growth you said over last year. Our average for the last three months was around 20,000 only.

Anupam Goswami: So that is lower in your view, right?

Ramesh Kumar: Correct, on a normal situation it will be 23000 to 25,000 tons per month.

Anupam Goswami: In the sugar segment standalone there also did we lose something benefit on the operating leverage as well due to lower volume?

Ramesh Kumar: Yes, certainly, because that impact will pass onto the lower volume also. 10,000 tons if it is not sold whatever margin which we are supposed to earn will have an impact in the bottom line. Mitigation aspects like reduction in cost and everything which helped us to improve over the last year numbers.

Anupam Goswami: And our transfer of plant from Pudukottai to Haliyal that was also supposed to happen in 2021 and commence operation before the season starts. So are we on track on that?

S. Suresh: Season in Karnataka is expected to start in Q3 in the months of October, November. This plant of Pudukottai being relocated to the Haliyal location in Karnataka. This is on track and will be starting in the Q3 of this current year.

Anupam Goswami: So, we will be able to commence before the season starts in Karnataka?

Ramesh Kumar: Yes, that's the plan, that's what we are working on we should be starting.

Anupam Goswami: Currently, with the current MSP, do we have a positive margin in the sugar? And where do you see that margin to change when this plant is being installed?

Ramesh Kumar: If we sell at MSP alone, we will not make margin. That is the reason why we are selling our category of sales predominantly broken into three aspects; one is trade, other is institution, other is retail. The higher quantum in the institutional and retail will help us to leverage higher premium. So that's the reason why even in the beginning of the year or even last year also we said that our focus is more on selling higher quantum in retail and institution, reducing the quantum completely in trade, because trade now currently people are selling only at the MSP level. If we are going to sell at MSP level, we will not be making margin. So we are focusing more to sell only at the institution and retail segment where we can derive more premium. That's our objective and we are on target on that.

Anupam Goswami: When this plant will be transferred there, you will get more sugar release order, right, the quantity will go up?

Ramesh Kumar: Yes, that’s the general norm, that's how DFPD calculates, we'll have to wait and see how the formula DFPD is going to give us; however, we expect the formula will be in line with what industry standards have followed, it may happen during Q3 or Q4 they will start allocating for this new plant also.

Anupam Goswami: And the cost of goods sold also should be a little lower after this plant is installed?

Ramesh Kumar: Yes, you're right.

Anupam Goswami: So just to sum it up, last on this, from Q3 or Q4 onwards, do we see some good positive profits in the sugar segment as well as the refinery?

Ramesh Kumar: Correct, correct. You're right, absolutely.

Moderator: Thank you. The next question is from the line of Kashyap of **Telem Partners**. Please go ahead.

Kashyap: You mentioned in your comments that crushing which got deferred from Q4 to Q1 in the same period last year, because of which you had…

Ramesh Kumar: Last year, we had crushed 4 lakh tons, this year we have crushed only 1 lakh ton. Last year because the plant got stopped somewhere on 17th March itself, three plants have got stopped; Tamil Nadu and AP plant, because of which whatever crushing has to happen started only in the May. So that's the reason why what was supposed to be crushed and completed in March got deferred to the first quarter of last year.

Kashyap: I understand that but I'm just trying to understand what was the quantum which got deferred. So, if I were to compare excluding the spillover, then how would my numbers look like 190 versus…?

Ramesh Kumar: Spillover was around 2.5 lakh tons.

Kashyap: If you can just break up the total debt at this point in time across the refinery and standalone?

Ramesh Kumar: From a standalone perspective, the actual for the quarter is the long term we had Rs.101 crores and short term was Rs.155 crores. From a refinery perspective, long term was Rs.100 crores, that is external debt only; in case of short term it was Rs.102 crores.

Kashyap: Basically Rs.255 crores of debt in the standalone in Q1 current year versus Q4'21 was Rs.500 crores if I remember, right?

Ramesh Kumar: Yes, you're right, Rs.554 crores.

Kashyap: So there's been a marked reduction there. And in case of refinery, the debt in Q4 was in the range of 200 crores, right?

Ramesh Kumar: You're right.

Kashyap: And this quarter Q1, did I get it right, it is flat or is it higher?

Ramesh Kumar: Rs.200 crores, correct only, absolutely right.

Kashyap: Different question is that if I look at the capital employed in Q4 to current year in the refinery segment specifically, then I'm getting a number which is lower. So it seems that the capital employed has gone down from Q4 to Q1 basis, while the debt has remained flat. Can you just explain what actually led to that?

Ramesh Kumar: On account of negative working capital we had in the beginning of the fourth quarter, that's the reason why.

Kashyap: So that continues as is?

Ramesh Kumar: Yes, Yes, absolutely.

Kashyap: When Mr. Suresh Kannan mentioned, path to refinery profitability is to get to break even which are expected, we were targeting last year, but just in detail, we are talking about PBT breakeven, right, in the current year, that's the right way to interpret for the refinery?

Ramesh Kumar: What he said is either we will breakeven during the year, it will be more profitable than the breakeven level, that's what Suresh Kannan clearly explained. Our objective is to do more than the breakeven level. As scenario stands, it will be more than the breakeven level.

Kashyap: So in FY'21, the refinery profit, if I were to just look at it, there was a EBITDA positive, but I think there was a PBIT loss in the refinery in the same period last year FY'21?

Muthiah Murugappan: Yes, you are right, that's because of that one-time consumption, the refinery had.

Kashyap: So while we were Rs.10 crores negative PBIT in the current year, we are talking of PAT level breakeven for the full year?

S. Suresh: Yes, that's right.

Kashyap: On the Nutra side, the numbers YoY are pretty much flat, I mean, absolutely the same, so at first, I thought there's a typo there, but nevertheless, if I look at Q4 FY'21, we had a very excellent margin on the Nutra side, and I remember management highlighting about investment in B2C Flomentum. So that has largely panned out this quarter, which is kind of leading to a negative margin in the US Nutra side. But for the full year, how should I think about the margins of consolidated Nutraceutical operations for us, I mean, while in Q4 it was a 30% margin, which obviously is not sustainable, but for the full year, where should this margin be notwithstanding the current negative in this quarter?

Muthiah Murugappan: Kashyap, thanks for the question. So if you look at the Q4 last year, we had held back some of our expenses on B2C because the pandemic had obviously delayed the launch and we couldn't get out and meet the medical fraternity and we held back on recruiting sales people, and we held back on the marketing communication expenses. So, obviously, that has a bearing on the margin. As we speak, those expenses are being incurred, and actually frontline sales costs are happening. So to that extent, we are going to see an expense loading happening in Q2, Q3 and Q4. So there will be an impact on the margin. In terms of the top line of the business, I think, if the standalone performance is fairly better than the consolidated, we sort of stayed at the same level in terms of top-10. We had a good quarter last year. If you look at a US Nutra perspective in Q1 because there was a lot of front loading by Costco and large retailers. So we have maintained at that level. Also, the last two years, Saw Palmetto berry price, which is obviously the key ingredient for our largest product has been on the higher side, last year, berry price, for example, was about $2.25 per pound. That's very sourcing and sort of very harvesting as we started this year. So we're seeing more crop availability. And as a result, we're seeing better berry pricing. But this will only start getting factored in about three or four quarters from now, because we do have inventory for the next three or four quarters. So from a full year perspective, I think the Q2, Q3 and Q4 investments, which is in the form of expenses early on the marketing mix, for the B2C launch, will have a bearing on the consolidated margin. So it won't be at the same level of Q4 last year.

Kashyap: But it can't be a 30%, but for the full year, should we kind of pencil in more in the 15%, 20% range or lower, while growth would happen hopefully at a 20% from a revenue growth perspective, but from a margin standpoint, the mid-teen margin would be the right way to look about it, not a specific number, but just a direction?

Muthiah Murugappan: I think you're headed in the right direction, Kashyap, I think that's fairly obvious. But from a scale up perspective, right, so we're starting that marketing program now, we are really going to start seeing a scale up later in the year and into next year. And I think what augurs well is that the current berry pricing is looking pretty good. So when we actually start seeing this raw material getting consumed by the product l into next year, and the confidence is that it will coincide with a scale up, and then I think it will have a very positive bearing on the financials.

Kashyap: And from a momentum perspective, how big would that segment be addressable market opportunity for us? And how are we placed from a competition standpoint to kind of get a sizable chunk? So, just while I understand that we are investing, which is good, because in that 200, 250 crores revenue band and finally, if we are able to kind of scale up B2C, it can actually take the company to a next stage from a Nutra perspective. So, just wanted to understand what is the size and what is the stake from right to win in this segment?

Muthiah Murugappan: The market size for prostate health supplements in USA is $200 million. This is early-stage prostate issues which don't require prescription-based allopathic medication or surgical intervention. We aspire between now in the next five years to take ideally a 15% share of this market. And we obviously play across the supply chain here. So that is the playbook which we are aspiring.

Kashyap: This would basically correspond with higher gross margins, because this is B2C, once you get the number, you will get a far higher profitability?

Muthiah Murugappan: Last year, berry price was $2.3 per pound; this year pricing is well under $1.75 per pound. Your B2C businesses are typically 75% gross margin. So there is a sourcing gain here, which we understand. And then when we also have a branded business and a strong brand, then you can really leverage across perhaps multiple sections of the profit. So that's the objective to move to a 75% gross margin business wherein we sort of have a good lid on the sourcing as well. So yes, I think that's the hope and again the conference is that it will have a good bearing on our Nutra business, because there are headwinds, as you rightfully pointed out that we've been stagnating because of the limitations on the B2B business. So this is really an investment in a leap of faith for businesses taking to get to a higher gross margin.

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

Achal Lohade: If you could repeat the numbers with respect to the cane crushing volumes realization, etc.,

Ramesh Kumar: For the quarter, the cane crushing was 1.46 lakh metric tons as against previous year it was 4.12 lakh metric tons. Then the recovery was 9.58% current quarter, last year it was 8.24%. Then sugar production is 0.14 lakh metric tons, last year it was 0.34 lakh metric tons. Sales quantity, 0.97 lakh metric tons for the quarter as against 1.02 lakh metric tons last year. Sales realization we had last year 34.30, this year we have 33.60. Closing stock 1.73 current quarter, last year same quarter 1.91 lakh tons…

Achal Lohade: Just a clarification, sales include exports or…?

Ramesh Kumar: It includes export, when I say apple-to-apple only, I'm not trying to give exports separately. Power generation 2.7 crore units for the quarter as against 5.34 crore units previous year because of the higher crushing which we had last year. In power export, we had 1.5 crore units during the quarter as against last year 3.09 crore units. Power tariff was 3.34 for the quarter as against 3.41 of the previous year. In case of distillery production, for the quarter it was 144 lakh liters as against 160 lakh litres last year. Sales volume was 139 lakh litres during the current quarter as against 145 lakh litres in the previous year. Realization is around 57.7 during the current quarter as against 61.8 in the previous year.

Achal Lohade: Cane crushing, how do we look at FY'22 and consequently '23 assuming a normal scenario?

S. Suresh: As Suresh mentioned, for cane crushing, 10%-15% should go up compared to the last financial year.

Achal Lohade: Last year was about 39.7, we think we will be higher by 10% to 15% for FY'22, I got it right sir?

S. Suresh: From FY'21, yes.

Achal Lohade: How about recovery rate given the state mix change with normal monsoon, normal climate?

S. Suresh: Recovery could be marginally higher because of the shifting of the plant into Karnataka. We have to also wait and see the special season recoveries in Tamil Nadu because normally when the rains are incessant, the recoveries get impacted. So, maybe at the end of Q2, we will be able to have some idea. This Q2 is a special season in Tamil Nadu. By and large, the recovery should be in line with the previous year.

Achal Lohade: What are the key drivers for diversification?

S. Suresh: The entire Bagalkot distillery is whatever we have commissioned now. Entire output will be pivoted for the oil marketing companies over and above the normal plants. We don't sell anything from Tamil Nadu. From Andhra we sell the syrup. Haliyal distillery is selling the syrup and B-Heavy to marketing companies. The new addition is the Bagalkot distillery. Entire output of ethanol will be produced and sold in the market.

Achal Lohade: Cane price, if you could a), highlight what is the crushing mix we will have from the state mix perspective for FY'22 and what was the cane price for last season?

Ramesh Kumar: There's a lot of rumors with respect to the cost aspect of the cane price that Suresh sir said in the beginning of the call, there can be increase in MSP, there can be increase in cane price. So, all these things we have to wait and watch as the government announces. However, as far as the current state is concerned, last year, the government has increased the FRP by Rs.100 from 2,750 to 2,850. The increase in the FRP is the impact which we'll be seeing during the current year. However, any benefit which comes on the MSP will flow to the P&L automatically. Similarly, whatever the costs which will get added on account of increase in FRP, that will also flow to the P&L, to the extent of whatever sales happening during the current year. However, with respect to the other expenditures, we are trying to sustain whatever cost reduction which we did during last year. However, there will be increases with respect to the inflation which are occurring during the year because the last year we had a lot of lockdown things etc.,. This year every plant and every offices are fully operational, to that extent cost will increase marginally.

Achal Lohade: Just to clarify, can you help me with FY'21, what has been same crushing mix from Tamil Nadu, Andhra and Karnataka?

Ramesh Kumar: Cane crush for Tamil Nadu it was 16.42 lakh tons, Andhra was 4 lakh tons and for Karnataka it was 19.26 lakh tons, the overall was 39.69 lakh tons.

Achal Lohade: FY'22 if we assume normal situation in terms of the climate, you said 10-15% higher. How will that change given the shift of plant as well, in Tamil Nadu how much will it decline?

S. Suresh: Karnataka will go by around 5 lakh tons of cane and Andhra should go up by almost around 50,000 tons of cane, maybe Tamil Nadu will go up by at least 1 lakh tons or 2 lakh tons roughly.

Achal Lohade: So this 19.26 lakh tons plus 5 lakh tons, this 5 lakh tons include Haliyal plant or…

S. Suresh: It includes the new plant relocation.

Achal Lohade: My another question was on debt. If I look at the debt it has come off pretty well now in the standalone business the long-term debt I am talking about. What is the way forward given we will have a fairly decent move in the current year, how we plan to look at the debt now and the dividends announced in the subsidiary dividends, how do you see it going forward?

Ramesh Kumar: We wanted to maintain lesser than whatever last year end number. Last year-end itself, we brought down substantially the debt level after using our profits from the 4% stake sale. So, that is the minimum level where we wanted to maintain at that level or even lesser than that. We only estimate our debt level going forward will be lesser than the last year end numbers.

Achal Lohade: No-no, I am keener on knowing what is the process now given from three to four-year perspective, will we start looking at more capacity addition?

Ramesh Kumar: Debt zero is our objective in another four years.

Achal Lohade: When you say zero level debt, you include short-term because of seasonality and all that, total or just the long-term?

Ramesh Kumar: We wanted to bring down the entire debt to zero in four years' time. That is the objective in which we are working.

Muthiah Murugappan: Achal, while the aspiration is to have debt levels which are perhaps slightly better than where we are now. We'll come back to you in terms of dividend policy, so on and so forth. I think we need to get back on track at some point. I think growth is also on the company's agenda, it's very prime on the agenda. And I think there are areas of growth, which are evaluated, which are obviously in the current sort of areas or segments that we play in, and perhaps some allied segments as well. And this is really how we would look at it going forward, as the debt levels have been set, and the company's got a bit of a steady state financial performance. So do give us the time, I think that clarity will emerge in the coming quarters. I hope that covers your question.

Achal Lohade: Is it fair to assume the increase in crushing volume and a similar increase in distillery cogen or you'll get some indication in terms of what is the distillery volumes, we will look at '22?

S. Suresh: Distillery volumes for '22, Bagalkot should get the entire capacity addition, will be the incremental volume, other volumes will not increase, because they are all running at full capacity, there cannot be much increase compared to the previous year, because again volume is going up.

Achal Lohade: What was the cane price accounted in first quarter FY'21 and FY'22?

Ramesh Kumar: The landed cost for the full quarter was around Rs.3,200 because last year we did not have the FRP during the first quarter, it was around Rs.2,900 per ton last year.

Achal Lohade: If you could put the sales realization, closing stock numbers in a press release, just like some of our peers in the industry do, that would save a lot of time. In terms of the closing stock at what price has it being valued?

Ramesh Kumar: valued around Rs.32.

Moderator: The next question is on the line of Gautam Dedhia from Nalanda Securities. Please go ahead.

Gautam Dedhia: I think in the last call, we had mentioned that in the Nutra business, you're looking at inorganic opportunities. So I just wanted to understand how have we progressed along those lines? And how should we think about these acquisitions -- so will they be like a one big acquisition or there'll be multiple small acquisitions? What location or geography we are targeting a product segment? And what would be the ideal size that we would be looking at? Just some color along those lines.

Muthiah Murugappan: We're obviously evaluating and there's always interest which is expressed to us at often times but there's nothing specific to discuss at this point in time. I think certainly, as we talked about, financial performance steadying in the previous question, I think that will also give us room and Nutra, certainly one of the growth areas to expand it. So I think the intent is to allocate capital for this business in the near future. But we don't have a specific opportunity to discuss at this point in time. We like to look at a growing area. We don't want to be in a niche. I think we want to look at the larger market space. We perhaps had made the mistake of being in some more niche players, which has limited our growth. So I think we will think beyond that. In terms of geographies, in India, certainly interesting. The core markets are USA and Europe. But if I was to rank them, I would say, India, because it's the home market and US because it's perhaps most contribution to our business come from that market and we have a good all-round presence there. We look at these areas. And I think from a value of a business perspective as well, I think the US is far down the road in terms of receiving these businesses and valuing a good business actually. So I think that's probably going to be a priority market, but nothing specific to discuss at this point in time.

Gautam Dedhia: So I know you will have a strong R&D team in Florida. Just now as we are expanding B2C business, and if we get some good opportunities, can you just throw some highlights on how big is our Nutraceutical operations in terms of our corporate team? Have you done any new hirings in the last one year or do we plan to do any hiring at senior management level?

Muthiah Murugappan: The team in Florida is about 30 to 35 people strong. Perhaps in the sort of mid-to-late 20s about one, one and a half years ago. I think, now we've got a slightly larger team because of the investment around Flomentum. I think you see the marketing mix; you see the manpower cost kind of getting loaded on to the US Nutra. That's because we've taken people from the industry, we have people who have come in from Johnson & Johnson, Abbott, GSK to really help us with Flomentum, because a lot of these people have been in kind of business models before. As I said, we have not done that and we are entering really a new space. So we needed that kind of experience to come in. So that team is probably about 35 people. The recent hires would be the sales and the frontline team, and that's six people. But we are working with a reputed firm called IQVIA who are partnering with us in that in that effort.

Gautam Dedhia: So you've done a commendable task in reducing debt, and that allows us to invest in Nutra. And I think you've been in the head of strategy for the last few quarters now. I just want to understand in terms of priority, right, it's been a misfortune that in the refinery business, the external environment was not conducive just in terms of spreads was not conducive for making money. Now, I just have two questions. So going ahead, I don't know how you predict this. But over a medium term, say three years, is there anything that shows or gives you confidence that the next five years won't be as bad as the previous five years? And relatively to the last one or two years how open are we to monetizing part of stake completely and redeploying that capital to Nutraceuticals?

Muthiah Murugappan: So, just to clarify your question, you're talking about the next five years from an overall EID perspective or from the refinery?

Gautam Dedhia: Refinery. I know, it's very difficult to predict market conditions, but is there anything that gives you confidence that the next five years won't be as bad or as hard as the previous five years? And does it make any sense internally priority to monetize stake in this business and redeploy that capital to Nutraceuticals?

Muthiah Murugappan: I am going to ask Suresh to cover his take on the five year forward view on refinery, but I'll perhaps answer your question as briefly as I can on capital allocation before I hand over to Suresh. So I think capital allocation, in terms of some of these more broader corporate decisions in terms of monetizing stake, and these are conversations we always have in different sorts of situations like. Again, nothing specific, so I won't talk to that now. But whatever be the case, I think a steady financial performance will give us opportunities to allocate capital and allocation of capital is going to be very, very critical for us as a company. I think we have an opportunity in biofuels, which we are thinking about, we have an opportunity on Nutra, and we have an opportunity on the retail brand that we are building for it to be retail of sweeteners, and perhaps even beyond that. So these are the opportunities and we're looking at from a capital allocation perspective. So we also I think capital allocation smartly being done should help us build value in the future. And not sort of see us as a sugar company going forward. I think we want to be known perhaps as a larger play on say food ingredients, biofuels, and consumer. So this is the initial thought process, which we're trying to formulate, because then at least it's a better deal for all of us in terms of how the company gets valued and how it progresses. So that's the piece on capital allocation. I will sort of maybe hand over to Suresh to talk about his five-year view.

S. Suresh: In terms of the refinery business, I think I would like to answer your question in three parts. So, one is with respect to the external environment that you rightly pointed out but based on global demand/supply and developments of ethanol here and demand for ethanol in Brazil, we see that the refiners are still required in order to balance the demand/supply as far as sugar is concerned. But there are certain short-term clouds definitely in the form of higher freight costs and deferred demand, etc., but these are for a shorter duration as the pipeline gets dried up, we will continue to buy. So, our view is that the raw and refined sugar as we are seeing would be maintaining at the level that will give us a spread of between $40 to $45. And we have no means to ascertain the certainty of it. But we can only capitalize it as and when the spreads are available by locking our spreads. Refinery, we have earmarked, we said is part of our investor presentation earlier, in terms of a two-pronged approach to improve and sustain the profitability, the first one is to increase our value-added part of sale. As we are seeing that over a period of the last two to three years, we have developed our institutional footprint with which we were able to double the institutional volume last year from a very small level to significant percentage of our sale. So going forward, we see this process to give us fruit in terms of higher premium on our sugar, we're not selling it on a trade basis in a larger percentage. And we expect this momentum to continue. There are some short-term blips in the form of container availability, but this is a common problem, all exporter of our country fail and we expect the situation will change as a result of it. The volumes on this segment can be improved as a percentage of total sales. The second is with respect to being a commodity business in order to sweat our assets and to grow into a better cost structure, we have been strengthening our cost of production over the last three years. Our idea is to get under the lowest possible spread that was available in the market. So we remain last man standing as far as refining both. Here again, current year is an aberration in terms of steep increase in utility costs and fuel costs with all industries are facing it. But these developments in our opinion will be priced through in the spreads going forward as refined sugar is needed to balance the overall demand/supply is concerned. To summarize, we will continue to work on improving our value-added sale through institutions and leads to the direct market. The second one is to continue to improve the cost efficiency of the refinery. We will get a stable and increasing level of profitability for the refinery is concerned. And of course, a good external situation or spread availability between the level of $40 to $50 will definitely assist us in this journey in providing adequate return on the capital employed on the refinery business.

Moderator: The next question is from the line of Ritwik from One Off Financial Consultants. Please go ahead.

Ritwik: Can you share the refinery details on the production, sales, revenue, and EBITDA for the quarter?

Ramesh Kumar: The operational revenue for the quarter was Rs.220 crores. The PBT was a loss of Rs.21.29 crores as against the loss of Rs.7.83 crores. Refinery sugar production for the Q1 was 1.97 lakh metric tons as against 1.73 lakh metric tons. The sales for the quarter was only 0.73 three lakh metric tons as against 1.25 lakh metric tons. And EBITDA is breakeven.

Ritwik: Just continuing with the previous question in the future, if we get an opportunity to exit or to monetize our refinery business, are we open to that or this will be part of the business and we are not looking to sell it.

Muthiah Murugappan: As I said, these are all corporate actions, and questions I wouldn't like to touch upon now. If we have specifics to talk about, I think we can. But as I said to Gautam, we always look at different strategic options on our businesses. If there's anything specific we will cover it.

Ritwik: Any plans on expansion of the ethanol capacity given the impetus of the government in this segment?

Ramesh Kumar: During the quarter, we have commissioned 60 KLPD Bagalkot, that is what is coming up during this year as of now.

Ritwik: But any further plans to expand are we considering or…?

Ramesh Kumar: We are continuously evaluating. We'll come back to you.

Ritwik: Sir, lastly on the export market, with sugar prices above 19 cents, what would be the ideal level of sugar inventory that we would like to have? Currently, you mentioned that we have 1.75 lakh as of June. What is the potential that we can reduce it once we can start exporting? This is despite the subsidy not applicable to the additional quota.

S. Suresh: If the price is favorable, maybe another 25,000, 30,000 tons we'd like to offload it with all because looking for subsidy provided the price is favorable.

Ritwik: So, current price will be favorable if we include the freight and…?

S. Suresh: Just equivalent MSP only what we will be getting. Also you have to look at evacuating the goods, contracting is one thing, doing physical dispatch is the next thing. So, we have to tie up both and then…

Ramesh Kumar: To add on to Suresh said, currently prices are looking high, but buyers are not there, that is one drawback is there at the market level. The buyer should also be available to contract for us. That is also there in the current scenario. However, as he said that we wanted to liquidate stocks around 20,000 to 30,000 tons extra in the OGL if possible if the buyers are there and good price is accommodative for us so, that it goes above MSP, it will be profitable for the company.

Ritwik: So, ideal inventory level would be around 1.4 lakh tons for us?

Ramesh Kumar: Absolutely.

Moderator: The next question is in the line of Akshay Ajmera from Nirzar Securities. Please go ahead.

Akshay Ajmera: Lastly, there was some ambiguity on the ocean freight charges due to which domestic mills were not supplying to go to our refinery. So has it been sorted out and the positive impact has already been taken in this quarter as well?

Ramesh Kumar: Yes, that is done. As of now subsidy portion itself has been brought down by the government from Rs.6 to Rs.4 now. We don't know what is going to be the new policy announcement for the next sugar season. But we have to wait and watch whether subsidy is going to be there or not.

Akshay Ajmera: Generally, Muthu sir has told that we have kept berries stock for three to four quarters. So is this a general trend that is going to be there or it was an exceptional thing that has been done?

Muthiah Murugappan: Typically, the berries get harvested in the August-September timeframe and that's when all the companies will buy it. Depending upon how much you buy, your stock would last you anywhere between three quarters to five quarters. Of late, if we have an advantage in berry price we sort of pick-up stock and there's a certain process we have to do immediately on it for at least about five quarters. But the more stocks you have at a better price then you're covered for longer.

Akshay Ajmera: So that will be a general trend in this industry?

Muthiah Murugappan: Yes, that's how the berry sourcing work.

Akshay Ajmera: You talk about the capital allocation and you mentioned that biofuel retail, gas, you are looking for capital allocation. So, clearly we are not looking any new capital infusion in the sugar and refinery business, is that correct?

Muthiah Murugappan: Sugar milling I think we just moved our capacity from Pudukottai in Tamil Nadu to Haliyal. That obviously been added in a better recovery area, but, yes, the three areas which I spoke about would be our primary focus in terms of capital allocation.

Akshay Ajmera: So, how do we see that Haliyal capacity going up in terms of capacity utilization in next two to three years for the Brownfield?

S. Suresh: The new plant is somewhere around 4,000. We have an existing plant at 7,000 tons. So roughly around 11,000 tons crush per day is what is the capacity to be there. The physical utilization will be based on the length of the season. Normally, Karnataka operates for 120-days to 180-days. So, last year also in Haliyal, the location where we are moving this new plant was almost around 130-days. So, it should be operating at the full optimum level which runs around 150-days.

Akshay Ajmera: So, this new 4,000 will be ramped up in phase wise or it will be like in two to three years, we can assume that this 4,000 Brownfield expansion, which has been moved from Pudukottai to Haliyal to the 100% capacity utilization?

S. Suresh: So, it should happen in this season itself. That's what is the plant where the plant needs to get utilized. And by next season, it should be up and fully running on 100% capacity.

Moderator: So, that was the last question. I would now like to hand the conference over to the management for their closing comments.

S. Suresh: Thank you, everyone, for being patient and then joining this call, and hoping to see you in the next quarter earnings call Thanks a lot. Stay safe.

Ramesh Kumar: Thank you, all. Thank you so much.

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