“EID Parry
Q2 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the EID Parry's Q2 FY2022 Earnings Conference Call hosted by DAM Capital Advisors 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 this 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. Nitin Agarwal from DAM Capital. Thank you and over to you, Sir!

Nitin Agarwal: Thanks Janis. Good morning, everyone and a very warm welcome to EID Parry's Q2 Post Results Conference Call hosted by DAM Capital Advisors Limited. 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. Biswa Mohan Rath - Company Secretary. To start the call, I will now hand over the call to the EID management team to making the opening comments and then we will open the floor for Q&A. management team, please go ahead, Sir.

S. Suresh: Thank you. Good morning, everyone. I am happy to be part of this analyst call to share an update on the sugar industry's scenario, the regulatory changes and also give a brief on the Q2 performance of the company.

On the international front due to the dry weather the Brazilian crop is expected to be around 520 million metric tons, it may lead to a sugar production of around only 32 million metric tons.

Higher oil prices and ethanol prices are expected to push the sugar prices up and maximum sugar is expected to be produced out of Brazil.

. In order to meet the global demand there is going to be upsurge in the sugar prices and we expect the international prices to be in the range of around 19 to 21 cents. The pandemic impact on the sugar consumption is not expected to be so significant. As I explained to you the sugar prices are expected to be in the range of only 19 to 21 cents.

As far as Indian crop is concerned it is expected to be somewhere around 31 million metric tons, which is almost in line with last year and estimated to be around 30.5 million metric tons. This is after the diversion of sugar to ethanol to the tune of around 3.5 million metric tons.

Government has increased the FRP to 2900 with a base recovery rate of 10% which is Rs.50 increase over the previous year and the industry has been expecting an increase in

MSP from the government. We are expecting the ethanol prices to increase for supply to the OMCs, and the government announcement should happen any time now. There is no export policy announcement for the sugar year 2021-2022 as yet.

Another important development in the Tamil Nadu sugar scenario is that, the government has issued the order for manufacture of ethanol from sugar syrup and B-heavy molasses. This will bring a lot of flexibility for the distilleries to switch between ENA and ethanol production.

Coming to the company performance: The standalone revenue operations, revenue from operations for the quarter ended September 30, 2021, is around Rs.438 Crores as against Rs. 529 Crores of the corresponding quarter of the previous year.

EBITDA was around Rs. 115 Crores as against Rs. 226 Crores of the previous year. The PAT after tax for the quarter was around Rs. 73 Crores as against Rs. 131 Crores. The decrease is predominantly due to the export obligation which was supposed to be done in this half was actually fulfilled in the previous year itself. We are also continuously scouting for opportunities to source more and more quantum and from the other mills to see the opportunity for export in the future.

I am happy to announce that the board has announced a dividend declaration of around Rs.5.50 per equity share.

Another important announcement is about the Bagalkot distillery plant which has been commissioned for 60 KLPD capacity. Commercial production has commenced and the plant is operating on full swing. We have started supplying ethanol to the oil marketing companies produced out of syrup as well as B-heavy.

During the quarter the board has also approved setting up of 120 KLPD grain based multi-feed stock-based distillery plant in Sankili, Andhra Pradesh. This is to take advantage of the benefits of the ethanol program of the government and this product is expected to be coming on-stream during the next financial year.

With reference to Haliyal factory expansion, we had moved our assets from Pudukottai to Haliyal plant in Karnataka, and the commissioning is going on andit is expected to be on-stream from the end of November.

So, with this I would now request our CFO to explain you on the segment wise financial performance. Over to you Mr. Sridhar! Thank you.

A. Sridhar: Thank you Suresh and good morning to you all. I am extremely happy to be a part of this analyst call to share the information on the operational and financial performance of the company.

While Suresh presented about the industry perspective and the financial performance of the company. I would like to share with you certain key operational parameters in each of our segments.

I will start with sugar operations: We operated the plant only in Tamil Nadu for the Q2. During the quarter we have crushed about 6.6 lakh metric tons when compared to corresponding quarter of previous year of 5.70 lakh metric tons.

The recovery from Tamil Nadu operations has been 8.71% in current year quarter compared to previous year corresponding period which was at 7.91%. We produced about 0.57 lakh metric tons during this quarter against corresponding period previous year which was 0.45 lakh metric tons.

The cane landed cost was Rs.2971 per metric ton in Tamil Nadu for Q2 compared to previous year same period which was at Rs.2850 per metric ton.

On the sales: for the Q2 we did sales volume of about 0.84 lakh metric tons. The domestic sales was around 0.77 lakh metric tons and the export was 0.07 lakh metric tons.The previous year was at 1.07 lakh metric tons in which domestic contributed about 0.73 lakh metric tons and export contributed about 0.34 lakh metric tons.

For the first half of the year, we did a sales volume of 1.80 lakh metric tons of which domestic was 1.37 lakh metric tons and export was 0.43 lakh metric tons versus previous year sales volume of 2.10 lakh metric tons of which domestic was 1.36 lakh metric tons and export was 0.74 lakh metric tons. Reduced export sales coupled with the lower release order mechanism resulted in lower sales during the year.

As far as the selling price is concerned during the year we were at 34.76 per kg against previous year price of 34.66 per kilogram. Domestic selling price for the quarter was at Rs.34.86 and the previous year price was Rs. 34.84 and the export selling price was Rs.34.58 per kilogram and for the corresponding period last year it was 34.27 per kilogram.

The closing stock as of September was 1.46 lakh metric tons with the cost at 32.50 per kilogram.

Revenue for the quarter was Rs. 313 Crores in current quarter against corresponding period of previous year which was Rs.412 Crores. No cane overdues as of today and all FRPs paid on time.

With regard to cogen operations we generated about 570 lakh units against previous year corresponding period which was at 521 lakh units.

We exported about 287 lakh units as against the previous year corresponding period which was 268 lakh units. Average rate was at Rs.3.34 per unit in current quarter against the corresponding period previous year which was at Rs.3.28 per unit. The revenue for the quarter was Rs.18.51 Crores against Corresponding period of previous year which was at Rs.17.11 Crores.

Currently, power is exported through PPA arrangement in Karnataka and IEX / third party in Tamil Nadu and AP.

On the distillery operations we have sold 165 lakh liters for the quarter of which ENA was 62 lakh liters and the ethanol was 103 lakh liters with a realization of Rs.54.55 per liter against previous year realization of Rs.57.49 per liter. ENA was sold at an average of Rs.56.64 per liter the previous year was 61.34 per liter.

Revenue for quarter two was Rs.91.89 Crores compared to Rs.85.12 Crores during previous year. Distillery margins were reduced as there has been a drop in ENA sales in Tamil Nadu as imports from other states was at a cheaper price.

As far as Nutraceuticals business is concerned, the Indian operation were similar to last year with a turnover of about 21.46 Crores as against Rs.21.82 Crores in the previous year.

On the consolidated level the nutraceuticals business for the quarter has increased its revenue compared to previous year. The Turnover was Rs.61.91 Crores in current year against corresponding period which was Rs.57.61 Crores. For the H1, we have a turnover of about 136 Crores which is an increase of 3% corresponding half year in previous year.

On the refinery operations, the revenue for the Q2 was Rs.350 Crores and last year Q2 was at Rs.665 Crores. The PBT for Q2 was a loss of Rs.15.56 Crores and last year for the same period we had a profit of about 2.48 Crores. Refined sugar produced for Q2 is 0.33 lakh metric tons Vs last year same period it was 2.13 lakh metric tons.

Half yearly it was 2.3 lakh metric tons for the current year and in the previous year it was 3.86 lakh metric tons.

Refinery sugar sales for Q2 was 1.24 lakh metric tons last year was 2.42 lakh metric tons. Year to date financial year 2021-2022 was 1.97 lakh metric tons and last year it was 3.67 lakh metric tons.

EID Parry has been working towards the debt reduction mode on a periodical basis and the debt position has been much better compared to what it was as of March 2021. The long-term debt in March 2021 was around Rs. 200 Crores and currently it is about Rs. 101 Crores. As far as the short-term loan is concerned it was Rs. 355 Crores in March 21 and we are currently at 102 Crores.

The finance cost for the quarter decreased by about 9.67 Crores compared to corresponding quarter of previous year. . During current year Q2 the interest cost was Rs.12.98 Crores against last year which was at around Rs. 22.65 Crores. We are ensuring tight controls on the borrowings and interest cost.

Thank you and we would keep the floor open to listen to you all on your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Anupam Goswami from B&K Securities. Please go ahead.

Anupam Goswami: Good morning, Sir. My first question is on the sugar cost of production, what is our cost of production this quarter and versus what was in the previous year and also on the income statement we see that the other expenses has raised quite sharply and what was the reason behind that?

A. Sridhar: I did explain about the sugar cost what we are carrying for 1.45 lakhs metric tons, it is Rs.32.50 and your second question with regard to the other expenses in the previous year there were maintenance cost in the plants which we could not carry out because of COVID during previous year and we had to carry out many of those maintenance related expenditures during the current year. Also, there has been Bagalkot commercial production commenced during this quarter due to which the operating cost have moved up. There has also been an increase in the retail sales volume because of which the transport cost and the selling cost have moved up higher. These are the reasons where the costs have moved up.

Anupam Goswami: Sorry Sir I could not get the last part transportation cost was higher due to what.

A. Sridhar: The volumes in retail sales have moved up because of which we had to incur some logistics cost which is in line with the overall sales volume which has increased.

Anupam Goswami: How much would that be Sir your cost of production versus the last year?

A. Sridhar: It is more or less the same number. There is no change in the cost of production as such.

Anupam Goswami: So Sir in your other expenses as you mentioned maintenance cost due to plant between one of the plants and also the transportation in volumes. So I am guessing that this maintenance cost will not come in the next quarter and with the retail sales volume going further up will our transportation cost will, somehow the marginal transportation cost will come down and what is the quantum of this incremental cost which is above the normalized cost?

A. Sridhar: Yes, the transportation cost is variable in nature. When the retail sales volume moves up, the realization also will be better and we will get our transportation cost absorbed. However, When we look at as a competition between last year and this year there will be an increase in cost.

Anupam Goswami: Sir what would be our quantum of maintenance cost that has increased in this quarter.

A. Sridhar: It has moved up by about Rs. 3.5 Crores. Last year we have not carried out maintenance due to COVID.

Anupam Goswami: Okay this will not repeat in the next quarter at least?

S. Suresh: Suresh here, During COVID times the maintenance was not carried out. There is a need to do the regular maintenance and since we are in the off season we had carried out the repairs in order to keep the plant in running condition during season. So these expenditures is a year-on-year expenditure. Last year was an exception where we could not even do the maintenance activities due to the pandemic. That is why, only critical maintenance was carried out last year and this year all repair works have been carried out and this is a part of our regular operations.

Anupam Goswami: Sir just one last question on the sugar side as well. When do we see a positive margin in this sugar? We have seen that the realization has also gone up and the domestic realization outlook also looking very strong can we see a margin of about 5% to 6% as per the industry that goes?

S. Suresh: Everyone is aware this during this quarter there isvery less amount of crushing that happens. . Definitely the prices are moving up and also there are improvements in operating parameters. If you look at on the year as a whole definitely there should be a good picture coming in.

A. Sridhar: Yes, the production is more on the third quarter and fourth quarter and the cost absorption also happens during those quarters and sugar as such will need to be seen on the full year basis because of the seasonality, and definitely the prices are also looking good..

Anupam Goswami: Sir, just one last thing. If you can explain what is the refinery segment business outlook what are the spreads looking at and what kind of volumes can we look at for the whole year so that would be all from my side?

Suresh Kannan: As far as refinery is concerned we principally saw a deferment in shipments from the buyers on account of couple of factors which is global in nature and the prices of sugar went up substantially in second quarter and as a result of this there is postponement in their buying Second is we also had a peak increase in the ocean freights as a result of which and also in view of the shortage of containers most of the sugar got moved into break-bulk segment and break-bulk vessels were hard to find so the buyers even though they have contracted the sales volume with us have deferred the shipments for these reasons. So the outlook is basically, post September we are seeing the revival in consumption on the traditional market for Indian refined sugar and we are seeing vessel being there for lifting to be contracted the volume so it is a question of a period catch-up which we should be in a position to do in the second half of the year. As far as the spreads are concerned on a conventional basis the spreads have more or less remained the same and it is a question of the further softening of the energy market and the freight market that will determine the movement of spread going forward.

Anupam Goswami: I will join back in the queue. Thank you.

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

Kashyap: Just one question on the power front. The total capacity that we have as far as power is concerned incrementally from now on would it all be merchant or would there be PPA?

S. Suresh: Come again please?

Kashyap: So what is the breakup of the power capacity between merchant like other PPAs still ongoing or are we done with so just wanted to understand how much is the PPA and how much is open?

A. Sridhar: Yes, as far as the PPA is concerned only Karnataka units are in PPA till the end of December except that we have one of the Karnataka units which will continue to be in PPA for the next year as well and that is Ramdurg. All other units in Andhra Pradesh and Tamil Nadu are out of PPA. So there is a judicious mix between IEX and the third party for the units which are out of PPA. Depending on the price realizations in IEX and third-party, we always shuffle between these two in terms of certain ratios which will maximize the realization for the units exported.

Kashyap: So in the Q2 how much was actually PPA and how much was IEX and open sale? I am just wondering whether incrementally the power rates that have scaled up whether we will be able to take advantage and to what extent we can take advantage?

A. Sridhar: Yes, in the month of July the power generation was very low for us. For the months of August and September the IEX was about 71% and 54% respectively. On a daily basis we monitor this and shuffle between the IEX and the third-party arrangement depending on the price..

Kashyap: So basically effective from December onwards only one unit which is Ramdurg building PPA rest everything will be open.

A. Sridhar: Effective January, only Ramdurg will be continuing to be on PPA and all others will be out of PPA.

Kashyap: Can you just give us an update on shifted to Karnataka from next year and what is the crushing we should be looking at in total?

S. Suresh: Yes, current year the capacity of Haliyal has been added up by almost around 4000 TCD because of the assets movement from Pudukottai to Haliyal. Already Haliyal was having 7500 TCBs so totally put together it will be around 11500 TCD.

Kashyap: Just one question on the refinery, I just missed the volume data that you shared. Could you just help me with the data point on the refinery part for the year and for the products?

A. Sridhar: I will explain it once again. As far as the operational revenue for Q2 it was Rs. 350 Crores and last year same period it was Rs. 665 Crores. The PBT for Q2 this year has been a loss of about 15.56 Crores and last year same period it was a profit of 2.48 Crores. On the production side for the Q2 we were at 0.33 lakh metric tons, last year for Q2 we were at 2.13 lakh metric tons and the year-to-date for the current year is 2.30 lakh metric tons and last year was 3.86 lakh metric tons. The sales for the Q2 was 1.24 lakh metric tons and last year was 2.42 lakh metric tons. Year to date sales for the current year was 1.97 lakh metric tons and the last year sales was 3.67 lakh metric tons.

Kashyap: What would be the EBITDA from the refinery for the full year and I mean so far YTD?

Suresh Kannan: The EBITDA for year to date is around 6.44 Crores for the quarter it was 7.18 Crores

Kashyap: Which corresponds to what number last year?

Suresh Kannan: Last year for the quarter was 21.78 Crores and for the six months it was 35.93 Crores.

Kashyap: So basically 36 Crores EBITDA and 6 Crores EBITDA and you did mention that there have been deferral in shipments and I think the similar commentary was made even in Q1 that there was an issue about availability of containers etc., so just wanted to understand that in the next six months will you be able to catch up on these numbers?

Suresh Kannan Thanks Kashyap. This is industry wide phenomena as far as first quarter and second quarter shipments are concerned. As I explained earlier, on both the destination demand and the freight, fortunately the Baltic index has started softening and we are seeing reduction in the ocean freight charges for the typical destination for Indian refined sugar. So, for the contracted sales, we are seeing a good pace of confirmation of schedules as a result of which we should be in a position to catch up in the second half of the year.

Kashyap: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Ritwik from OneUp Financial Consultants. Please go ahead.

Ritwik: Good afternoon Sir. Just a couple of questions from my end Sir on the refinery bit what is the long-term and short-term debt in the refinery segment?

Suresh Kannan: Yes, as far as refinery business is concerned, we are not having any long-term debt on our balance sheet anymore and currently we have a debt level of around 800 Crores which is primarily working capital and the capital get normalized as this pickup happens for the second half.

Ritwik: So this is all the inventory which has been piled up in H1 which we are able to have?

Suresh Kannan: Yes, absolutely and it will be out in the second half of the year.

Ritwik: Sir what is the status on the second unit which we are going to transfer from Tamil Nadu to Karnataka any updates on that anytime we would like to share?

S. Suresh: As far as the second unit is concerned; we will not be transferring as it is not a viable option.

Ritwik: So you think that cane availability will improve in Tamil Nadu so we are not looking to transfer that is that the right understanding?

S. Suresh: No. I was saying you asked about the transfer of the second unit to other places and I said it is not a viable proposition. We have talked about this earlier too. We are exploring the possibility of selling the plant and machinery of the second unit.

Ritwik: Sir in your opening remarks you mentioned about the Sankili distillery so when should we expect this to be commission the 120 KLPD.

S. Suresh: This should be up for operation by Q4 of 2022-2023.

Ritwik: Sir lastly on the dividend that we have given so would it be fair to assume that with long-term debt almost nil at standalone and even the refinery level we will be paying out the entire dividend which we will receive from Coromandel to EID shareholders would that be a fair assessment going forward?

A.Sridhar: No. It all depends on the operational performance and the decision taken at the board level it is not possible to comment at this point of time and as of now there is a dividend which is declared to the extent of about Rs.5.50 per equity share.

Ritwik: That is it from my side. Thank you.

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

Bhavin Chheda: Good afternoon Sir. Sir I just wanted to clarify what is the crushing target for this sugar seasons and for next sugar season after all your capacities are on stream and similarly what is the distillery volume target for this sugar season next sugar season?

S. Suresh: To answer the second question first the distillery capacity is around 294 KLPD. The new distillery plant has been commissioned at Bagalkot so this year the 294 KLPD will be fully operational. The new unit at Sankili will be add on once it gets commissioned. As far as sugar is concerned, the unit of Tamil Nadu is getting moved into the Haliyal that gets started in the current year itself so next year crushing capacity will be almost same as the current year crushing capacity. The actual volume crushed will be a function of the cane available at the rest of the locations.

Bhavin Chheda: How is the cane availability in this sugar season according to you and there must be some target to crush right?

S. Suresh: Yes, compared to the last year this should be at least a minimum of 10% to 12% higher. This year in Karnataka it is good and hopefully we expect the next year also better than current year by 10%. ..

Bhavin Chheda: This is looking 10% to 11% higher Y-o-Y as compared to last year and this Karnataka unit another 10% higher in Karnataka unit next year.

S. Suresh: Yes.

Bhavin Chheda: Sir, sorry distillery 294 KLPD now after Bagalkot expansion and another 120 would be added to this by next quarter two which would be grain based?

S. Suresh: Yes, Sir you are right.

Bhavin Chheda: So basically we will be going to around 414 KLPD right?

S. Suresh: Yes, Sir.

Bhavin Chheda: What is the capex for that additional 120 KLPD?

S. Suresh: It is around 92 Crores.

Bhavin Chheda: Any other capex companies implementing this fiscal next fiscal what would be the capex?

A.Sridhar The overall capex what we are looking at for this fiscal and next fiscal yearis about Rs. 364 Crores. This includes the Bagalkot expansion which is already carried out during the year and the Haliyal expansion which is currently happening. With the Sankili expansion that is likely to happen, the overall capex spends for this fiscal and next fiscal year should be around Rs. 350 Crores, all put together. There are no further projects as of today.

Bhavin Chheda: So this is entire in FY2022 spread in 2022 and 2023.

S. Suresh: Yes. It will be get spread as our Sankili project will be completed by FY 2022-2023.

Bhavin Chheda: So 350-odd Crores spread over 2022 and 2023 two years?

A.Sridhar Yes.

Bhavin Chheda: Sir refinery you spoke of deferment of volumes so now from quarter three onwards should we be back to 2 lakh ton quarterly run rate on the refinery side. My question was on refinery so from quarter three will we be back to a normalized 2 lakh ton production sales run rate or it would take time to reach that number?

S. Suresh: You are right we should be back in Q3 itself to the normal run rate.

Bhavin Chheda: What are the current spreads Sir?

Suresh Kannan: Yes, current spreads are still around $40 to $45 and as stated in the opening commentary with the tightening of global demand supply, the spread should start moving up going forward, not immediate basis but at least for the fourth and first quarter we should be in a position to see recovery in the spread.

Bhavin Chheda: Sir you mentioned working capital debt of Rs. 800 Crores in refinery so what is the balance sheet there is it matched by inventory and receivables number there?

Suresh Kannan: Yes.

Bhavin Chheda: How much if you can share the inventory and receivables as on September?

A. Sridhar: We will get back to you on that.

Bhavin Chheda: Thank you Sir and best of luck.

Moderator: Thank you. The next question is from the line of Riya Mehta from Aequitas Investment. Please go ahead.

Riya Mehta: Thank you for giving me the opportunity, Sir. Just two questions Sir basically at what realization price will be breakup in the sugar segment.

A. Sridhar: Rs.34 should be the breakeven for the sugar.

Riya Mehta: Thank you and the second question wound be that what is the impact of the rains to our distillery if any and since we have seen a lot of rain in UP segment so we are saying a production loss scenario so as per your internal calculations what do you think would be the production loss for the next sugar season such?

S. Suresh: Can you please repeat the question?

Riya Mehta: Basically what was the impact of rains on our sugarcane business and the second will be that in UP we are seeing a lot of rain that is happening and it has caused lot of production loss and the commentary from all the management is that they are seeing a little lesser cane crushing for the next sugar season. So what do we forecast and what is our industry outlook as such because of the rain scenario?

S. Suresh: We do not foresee impact of the rains as far as our command area is concerned.

Riya Mehta: Okay so we do not have any impact of rain?

S. Suresh: I am talking about E.I.D.-Parry yes.

Riya Mehta: About exports what is the total quantity of exports that is done from Maharashtra and all the west cities like Maharashtra, and Tamil Nadu and Karnataka and all together put across in the current sugar season.

S. Suresh: From E.I.D. how much exports we are talking about or as a country?

Riya Mehta: No, as a country. I know it is 1.7 million ton or something has been contracted so is there any incremental which has been contracted in the last two months?

S. Suresh: I think somewhere around 2 million tons and you may validate that from the information available in the public domine.

Riya Mehta: And what is our outlook on exports when do you want to export and what would be our total target for exports and what would be the bottleneck as such?

S. Suresh: As a country I think maybe around 6 million tons is what is the requirement so that the prices are maintained. So we are expecting to look at the international prices to be favorable. While the export subsidies are yet to be announced, we need to get our volumes from the OGL and if the prices are better than the domestic, then we will find an opportunity to do more exports.

Riya Mehta: But when we export the cost of carrying our inventory is basically nullified so what would be that cost, the price which we are looking at?

S. Suresh: See somewhere around the Rs.33.5, Rs.34 we should be.

Riya Mehta: Currently we have as you have mentioned the quantity of exports any targeted exports for the full year?

S. Suresh: On a Fully year basis it will be around 1.3 lakhs MT.

Riya Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Good afternoon gentlemen, season greetings to all. So before starting first of all thanks for dividend and my humble request to the management was regarding sharing presentation before start of concall it will help us a lot and save time of the management to describe in detail about the production numbers and all so that was my request presentation will really help us a lot. My query was regarding can you please highlight upon all the verticals like

Nutraceuticals or even first maybe start with sugar what are the metrics where we make our production our sales profitable because what we understand is that when the realization is low we can shift our production to B-heavy molasses and shift our cane crushing towards that to enjoy the margin from selling the ethanol so how what are the strategy of our company to make this division more profitable by various means various understanding?

S. Suresh: I will talk about the sugar and maybe our General Manager will speak about the other SBUs. On the overall strategy, ifyou look at the last three years, we have been growing on cane volumes by increasing the planting and by moving the unutilized asset in Tamil Nadu to Karnataka where cane availability is more. . So, with the cane volumes going up, our fixed cost is going to be absorbed better and will boost our overall profitability.. Second is about the increased production of ethanol by investing in distillery. Bagalkot has already come in place and we are also investing in 120 KLPD at Sankili. So with all these, the increased cane volume will produce more molasses, more syrup and instead of producing sugar we are now putting up the additional capacities for distillery thereby we are in a position to liquidate the stocks at the earliest, improve the cash flow and also get better realization. We also understand that the government is continuously working on the improvement in the ethanol prices as well. The third strategy is about the sales. Compared to selling in trade, the business over the last three years has been focusing on retail segment and we have grown in leaps and bounds in terms of our retail segment from a base level of around 600 tons per month to somewhere around 6500 tons per month. So retail sales is all about branding and as you all know the investment in brand is going to give us better realization compared to the trade segment. We are not going to sell more in 50 kg. We will be selling more and more in terms of 1kg, half kg and consumer packs and as you have seen we have introduced the brown sugar which is a premium sugar with better realizations also we have recently launched the low GI sugar which is once again a premium sugar. So these new retail products should help in better realizations and improve the profitability of the business. Of course, as E.I.D. has always been doing we will be continuously working on cost reduction across all the places. This is the broad strategy and we have been seeing the impact of this over the last two three years in terms of the improved performance and will continue to stay focused. Thank you.

Sanjay Shah: Sir my question in sugar itself it is, so, what profit we make on branded sugar as of now?

S. Suresh: Broadly as a thumb rule I can say that we will be definitely be getting some 10% better realizations compared to what we are getting in the trade.

Sanjay Shah: Sir regarding export leaving aside the government subsidy what price internationally supports us to export without subsidy of government and make as a profitable?

S. Suresh: See anything around 20.5 cents per pound. So that should be the minimum one we have to also look at the forex gain so ultimately it has some match with our cost of production then only we will look at that.

A. Sridhar: Anything about 32.50 which is our cost of production will be good for us.

Sanjay Shah: Now can somebody help me to understand in our nutraceuticals business where internationally we are not doing so great and still we are pumping money to the vertical so what is the company strategy ahead on that vertical?

Muthiah Murugappan: Sanjay, thanks for your question. I will just cover the vertical and what drives profitability. I think the important product for the nutra segment is Saw Palmetto Berry extract, the Spirulina product and the Astaxanthin product so these are the three products in that order of importance in terms of the contribution as well to the top and the bottomline. To start with Saw Palmetto how do we drive profitability? I think there is a very important game here in purchasing the berries. The berry gets harvested between July and September every year. So, I think smart buying ie., buying at a right price and buying the right quality will give you a value which is of a good optimal cost and high recovery so that is very important in terms of driving profitability. We obviously have a lot of strong customer relationship on the B2B side and we aspire to go to more value-add relationships where our product quality and our scientific data is accepted by customers so the more these kind of value accretive customers we have the better are our realizations.. As you would know the Flomentum business is a business we have invested in. It is not a capex-based investment and it is more on opex based investment where we are building a brand and this is to take this business and expand it into a business of a 70%, 75% growth margin consumer facing business. We have good control of the farm and the supply side and we want to see it through right up to the end to the consumer to expand the topline and expand the profitability on this business. So that is really be investment or I guess you talk about something money into this business that is what we are seeing when we actually are talking about the international business because where the investment is going into. It is too early and COVID delayed this investment and delayed the efforts and now you are starting to see that investment in opex happening which is largely a marketing led investment and to that extent the bottom line is obviously muted. We will come back to you as to how this is faring in the next year. I think we will need more time to focus on it internally. I think the second important product is Spirulina. Here again we are focused more on the premium segment. We have a good scale here. You will see this year that we are able to produce substantially more Spirulina than we have in prior years. This is because of work that we have done at the plant on efficiency improvement and improvements in yield and better utilization of the capacity. Unfortunately we had a raw material price impact as our plant-based feed material feedstock was ruling on much higher prices. We will take a remedial action for that. So, I think some of that improvement in this will pan out in the subsequent quarters. The last piece is the Astaxanthin business which is the smallest among the three products that we have on the nutra front. Here the focus is really more on formulated products to get better realization. So this is how we sort of look at how to build this business profitably.

Sanjay Shah: We are investing around Rs19 Crores on acquisition of one of the equity portion so is there any other more capex required for nutraceuticals business this year and next year.

Muthiah Murugappan: So we are basically investing money in the JV so that we take out some debt in that company just to avoid interest cost and then help the company to perform better. It has been a slow start for the JV company which was set up to extract blue color from Spirulina which we already make. I think the market is being challenged by Chinese pricing which is very aggressive and this has substantially brought down the business proposition. So we are working with that trying to establish some longer-term contracts and trying to see how well we could use this facility. So I think this capitalization of the business will help it take out all of its interest cost, reduce debt and focus purely on the operations in a much more leaner manner so that is why we have done this.

Sanjay Shah: Thank you for replying to my questions. Good luck to you.

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

Gautam Dedhia: Just one question can you just share the branded sugar volumes for this quarter and first half versus year-on-year.

A. Sridhar: I will just get that to you.

Gautam Dedhia: Thank you.

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

Anupam Goswami: Sir can you mention what is our distillery target for this year as well as for the next year and what is our target of the breakup as and what in how much ENA and how much ethanol, in ethanol how much B-heavy are we doing. Because I have to understand that B-heavy has a highest margin so why are we not focusing more on B-heavy?

S. Suresh: For the quarter if you look at the sale of 165 lakh liters with us B-heavy has around 60 lakh liters. I think the point to note here is the B-heavy and syrup has to be seen in tandem and profitability of B-heavy if you look at if it is high or low is a function of the transfer pricing but definitely it is better than industry. There is no doubt and it is better than the sugar proposition and as the plants run normally it is better to run during the season when the crushing is happening in syrup and during the process produce the B-heavy and use the molasses generated thereon to consume therein the off season in the form of running the distilleries with the B-heavy. In our experience in the last two years we have found that to be the most optimum model to maximize the margins on that basis certain contracts will be done you can also see there is a differential between syrup and B-heavy in terms of the prices. Of course, by and large you will look at the contributions it depends on how you value the molasses accordingly the margins will be coming in. The ideal way is to run during the season to syrup so that we maximize the profitability. This is because there are other operating parameters which would be beneficial when we run the season on syrup and during the process take out the B-heavy and run during the off season.

Anupam Goswami: Sir what is our target for the going forward what do we look at do are we going to produce more ethanol rather than ENA and in ethanol more B-heavy as you said that?

S. Suresh: Sir actually this can be based on the prevailing prices of ENA. Plants like Sankili, and Bagalkot, will continue to be supplying to the oil marketing companies. Plants like the Haliyal and Tamil Nadu we will evaluate the opportunity and whatever is best for the business at the time of production, we will decide whether to produce ENA or Ethanol.

Anupam Goswami: What is our margin to margin what is our comparison for ethanol and ENA?

S. Suresh: It will be more or less same.

Anupam Goswami: Sir any chance of having a higher margin in the distillery segment going forward because any sort of our strategy that we are looking at because right now the margin that we understand is quite lower side than the industry average so what is our strategy to improve the margin in the distillery side?

S. Suresh: I think the distillery margins has to be seen in comparison with the sugar margins what we make. So it is a function of what is the realization we get out of sugar and distillery. Also the liquidation of sugar is limited due to the release quota. So the margins have to be compared as against vis-à-vis sugar how much you are making in terms of ethanol.

The government might be announcing the increase in the ethanol prices on the supply we make to oil marketing companies in the near future.

Anupam Goswami: Thank you Sir. I will join back to the queue.

Moderator: Thank you. The next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: Good afternoon Sir and thanks for taking my call. Sir I had two questions most of my questions have answered. On the distillery side why there is a drop in the profitability at a quarterly basis despite an increase in sales?

S. Suresh: There are two impacts which has happened during the time; one is we had a local lockdown in Tamil Nadu where sales did not happen and there is a lot of inflow of low-cost ENA flowing from other states into Tamil Nadu due to which the production was to be curtailed. Hence our cost absorption could not happen. From Q3 onwards this got stabilized and things should start improving from now on.

Rajesh Majumdar: But the sales have gone up from 81 to 92 Crores by 10 Crores approximately on a quarterly basis?

S. Suresh: Yes,. With the Bagalkot expansion we were able to sell more.

Rajesh Majumdar: So because of the 10 Crores increase in sales whereas the 3 Crore drop in the segmental profit, we can take it all separately, if you look at the quarterly numbers?

S. Suresh: Yes, it is lot to do with the Bagalkot increase to volumes.TN was completely shut for most of the quarter. We could not run any of our distilleries I and that was a huge dent.

Rajesh Majumdar: So Bagalkot is operating at a lower utilization that is why the profitability is low is it right?

S. Suresh: No. Bagalkot is running normal and that is actually helping us in adding to the profits. Tamil Nadu units could not run during the quarter because the government did not give us the permission to produce ethanol out of syrup or B-heavy and on the other hand we could not sell ENA as low cost imports were happening from other states. Due to this, we were forced to stop the plants and the fixed cost absorption could not happen.

Rajesh Majumdar: My second question was on the refinery side we have seen various issues coming up like of course now there is the container issue and stuff like that so I had two questions one is that are we getting the raw sugar from the domestic side with the deemed export benefit?

Suresh Kannan: Yes since April this year our sourcing has been 100% on Indian raw sugar basis so we are procuring on a raw sugar basis Indian.

Rajesh Majumdar: Sir, can you speak up a little bit I cannot hear you.

Suresh Kannan: Since April we have been sourcing our raw sugar requirements from India only.

Rajesh Majumdar: And what is the incremental benefit on that in terms of dollar per ton.

Suresh Kannan: Approximately around $5 to $10 depending on the timeframe.

Rajesh Majumdar: My second question was that last year we saw some kind of unusual things happening in the second half in the refinery business is that behind us so we had a 140 Crores kind of loss so how should we look at the refinery business in terms of long-term profitability which is sustainable?

Suresh Kannan: I think to answer the first part of the question though it is pretty much behind us, the control mechanisms as well as verification mechanisms have improved subsequent to that event of last year. So, in terms of the long-term future for refinery the overall strategy remains the same as what we were sharing earlier in terms of improving our value added sale and we are one of their fortunate refineries we are able to sell 100% of the sugar as Parry brand we are looking at the final market so from general trade sales we have been building the book with respect to institutions and specific sugar for example sugar for premium coffee, sugar for solid mix drink in terms of energy drinks and other beverages etc. So that gives us a little bit extra premium over this standard brand sugar, the strategy of the business to increase that into a 20% or 25% of our market rates and 75% will work on a cost absorption mode, 25% could be a mid sector of the premium since it is purely a commodity business. We also have to look at continuously reducing our cost of refining and to that extent the asset utilization as well to optimize refinery operations. . In terms of reducing our refinery cost over the last four years we have been continuously fine tuning the refining cost and this should help us to get to the desired goals.

Rajesh Majumdar: What is our cost structure now in terms of dollar per ton for the refinery?

S. Suresh: At the moment, we have around $35 of refining cost.

Rajesh Majumdar: Thank you.

Moderator: Thank you. The next question is from the line of Ritwik from OneUp Financial Consultants. Please go ahead.

Ritwik: Sir thanks for the follow-up. Earlier in the call you mentioned the breakeven level of sugar I missed that can you just reconfirm the same?

S. Suresh: We said the cost of production is around Rs.32.50 per kilogram anything above that should give us margins in the sugar segment.

Ritwik: Current quarter when we are seeing an EBIT loss in the sugar segment so is this and you mentioned that realization is 34.5 in the current quarter so how do we read this?

S. Suresh: See the sugar production actually happens in the third quarter and the fourth quarter of the year. The absorption of cost happens in the subsequent period so we will have to look at the entire profitability for the full year and not so much on a quarterly basis.

Ritwik: So once we are above Rs.32.50 on the realization front we should be profitable for the full year in the sugar segment?

S. Suresh: Yes.

Ritwik: Sir what is the average cane cost landed for us across Karnataka, Tamil Nadu, and Andhra if you can give us that split?

A. Sridhar: Yes, we will share it. See during this quarter we have production only at Tamil Nadu and the landed cost of cane is 2971.

Ritwik: What would be the current cost like from October, November in Karnataka, and Andhra Pradesh?

A. Sridhar: Karnataka will be around 3,400

Ritwik: It is in line with the FRP.

A. Sridhar: Yes,

Ritwik: Sorry I missed that.

A. Sridhar: No Karnataka will be around 3400 which is in line with the FRP based on the recovery Andhra will be somewhere around Rs.3100 per ton.

Ritwik: This is all including transportation cost when we are talking about landed right.

A. Sridhar: Yes.

Ritwik: So Tamil Nadu and Andhra Pradesh would be around 3100 and Karnataka is at 3400?

A. Sridhar: Tamil Nadu for the full year if you look at it, it will come to around Rs.3200.

Ritwik: For this current sugar season?

A. Sridhar: Yes.

Ritwik: Sir one final question from my end on the release quota mechanism so it since that we are adding towards 6 to 7 million tons of closing inventory by September 2022 assuming a 5, 6 million ton of export happening in this year as well so what is your sense that at what level will the government give some more relief or completely do away with this release quota. What is your sense on that at what inventory level will the government look at?

S. Suresh: If it is going to be a bumper crop for next year then once again government has to look at other avenues because now the export subsidy is also not there so the exports is based on the international prices.. So if those things are going to be favorable then the 6 million will happen so far they have not yet announced the export subsidy. So it is up to the mills to decide based on their cost of production whether they want to export and then liquidate the stocks, . Hopefully if this 4 million or 5 million tons happen on exports and the diversion to ethanol also happen and the estimates of sugar also happening around that level maybe next year a 6 million tons of closing stock, the prices also should firm up.

Ritwik: That is it from my side thank you and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for closing comments.

S. Suresh: Thank you everyone for joining this call and taking our time out and it has been a pleasure interacting with you and hoping to see you in three months from now on a similar call. Thank you so much all the best.

Moderator: Thank you very much. On behalf of DAM Capital Advisors Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.