



“E.I.D.- Parry (India) Limited
Q4 FY’23 Earnings Conference Call”

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MODERATOR: **MS. NEHA MEHTA – DAM CAPITAL**



Moderator: Ladies and gentlemen, good day and welcome to the EID Parry Q4 FY23 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 the conference call, please signal the operator by pressing star and zero on your touchtone telephone. Please note that this conference is being recorded.

I now handover the conference to Ms. Neha Mehta from DAM Capital. Thank you and over to you ma'am.

Neha Mehta: Hi, a very good afternoon to all of you. We thank the EID Parry management for giving us the opportunity to host this call. On the call today we have with us Mr. Suresh, who is the Managing Director, Mr. Muthiah Murugappan, who is the Whole Time Director and the CEO, Mr. Suresh Kannan, Whole Time Director, Parry Sugars Refinery India Private Limited., Mr. A. Sridhar, Chief Financial Officer and Mr. Biswa Mohan Rath, Company Secretary. I would now like to hand over the call to EID Parry management for the opening comments, followed by which we will continue with the question-and-answer session. Thank you and over to you.

S. Suresh: Good afternoon, everyone. I am Suresh. It gives me great pleasure to be part of this Analyst Call to share and update the global and Indian scenario on sugar and explain the quarter 4 performance of the company as well as the full year. On the global scenario, the supply and demand has been virtually balanced as per the latest estimates released in April 2023 amidst supply concerns in both India and Brazil.

Global sugar production for the current sugar year is slated to be lower than earlier estimates by 3 million metric ton at 177.4 million metric tons, of course due to the concerns in Brazil and India. Whereas the global demand is slated to increase by 0.23 million metric tons, reaching 176.51 million metric tons. At Brazil, while crop condition is expected to be good, increase in gasoline taxes is incentivizing more diversion to ethanol and hence the sugar production is slated to be lower.

Risk of El -nino during Q3 of 2023 impacting monsoons in Asian countries would result in huge variability in 2023-2024 sugar balance projections. Having breached the decade high of 27 cents per pound in April 2023, the raw sugar futures are currently trading around 24 to 26 cents per pound. In India, because of the lower yield in key producing areas, that is Maharashtra, the total production for the current year is slated to be lower than the previous year by almost 9%.

With erratic weather affecting yields in Maharashtra, ISMA has revised the estimates of sugar production during SY22-23 to 328 lakh metric ton, down from previous estimates of 340 lakh metric ton. While international price is favorable for sugar exports, the government is unlikely to allot additional export quota given the supply restrictions in the domestic market. Sugar diversion to ethanol in the current sugar year is slated to be 4 million metric tons, down from the earlier estimates of 4.5 million metric tons.

It is encouraging to note that Tamil Nadu government has unveiled ethanol blending policy 2023 covering grain-based and molasses-based distilleries. New feedstock including invert sugar syrup has been included in the policy. The new policy is slated to attract investment up to around INR 5,000 crores to the state. Regarding Q4 performance, the standalone revenue for the quarter ended 31st March 2023 was INR 807 crores in comparison to the corresponding quarter of the previous year of INR 921 crores. Earnings before depreciation, interest, taxes and exceptional items (EBITDA) for the quarter ended was at INR 327 crore in comparison to the corresponding quarter of the previous year of INR 309 crores.

Standalone profit after tax for the quarter is INR 83 crores as against the corresponding quarter of the previous year of INR 225 crores. The profit after tax for the quarter ended 31st March 2023 includes loss of INR 155 crores, representing provision for impairment of investment in subsidiaries and joint ventures. The standalone revenue from operations for the year ended 31st March 2023 was INR 2,895 crores against previous year of INR 2,489 crores.

Earnings before depreciation interest, taxes and exceptional items EBITDA for the year ended was INR 527 crores against the previous year of INR 492 crores. Standalone profit after tax was INR 197 crores as against INR 284 crores in the previous year. The profit after tax for the year ended 31st March 2023 includes loss of INR 155 crores representing provision for impairment of investment in subsidiaries and joint ventures. The performance of the standalone sugar division was better than the previous year on account of better sales realization and increased domestic sale volume.

There was cost pressure on account of higher energy prices which was partly offset by increased realization from power export. Overall cane crush marginally increased during the year to 51.8 lakh metric ton from the earlier year number of 50.2 lakh metric ton in the previous year. Overall sugar sales also increased from 4.95 lakh metric ton to 5.19 lakh metric ton. The company continues to deliver on its focus areas of sweating assets and expansion in core areas.

The company had completed the sale process of Pettavaithalai plant and commenced 120 KLPD ethanol facility in Sankili from sugar syrup. Also, 165 KLPD expansion in Haliyal and Nellikuppam are in progress, the steady state benefits of all these expansions will flow from next financial year. Despite increase in interest rates, our efficient cash management and cash generated from operations resulted in reduced finance cost of INR 36 crores from the previous year number of INR 46 crores.

Standalone Nutraceuticals Division registered a marginal increase in profitability though there was a 13% reduction in revenue on account of better realisation and reduced input costs. I would now request our CFO Mr. Sridhar to explain to you on the segment wise financial performance. Over to you Mr. Sridhar.

A. Sridhar:

Thank you Suresh and good afternoon to all. For the benefit of the investors, we have already uploaded the presentation to the website portal. I would like to take you through the operational and financial performance of the company. To start with, on the sugar segment, the crushing operations were carried out in all sugar mills during this quarter. I would like to share

the quantitative details. In quarter 4, we crushed around 22.95 lakh metric tons when compared to the corresponding quarter of previous year which was at 25.98 lakh metric tons.

On a year-to-date basis we crushed around 51.81 lakh metric tons as compared to the corresponding period of previous year which was at 50.21 lakh metric tons. The early closure of Karnataka crushing season resulted in a drop in Q4 cane volumes. On the recovery front in quarter 4, the recovery from all our plants was at 11.51% compared to the previous year which was at 11.32%. On a year-to-date basis the recovery from all our plants was at 10.62% as compared to corresponding period of previous year, which was at 10.63%.

On the production in quarter 4, we produced around 2.35 lakh metric tons of sugar against corresponding quarter of previous year which was at 2.68 lakh metric tons. On a year-to-date basis, we produced around 4.92 lakh metric tons when compared to the corresponding period of previous year, which was at 4.83 lakh metric tons. Cane landed cost was INR 3,278 per metric ton against corresponding quarter of previous year, which was INR 3,276 per metric ton.

On a year-to-date basis our cane landed cost was INR 3,268 per metric ton when compared to corresponding period of previous year, which was at INR 3,255 per metric ton. So far as sugar volumes for quarter 4 is concerned, we achieved a sales volume of around 1.20 lakh metric tons of which domestic was 88,000 metric tons and exports were at 32,000 metric tons. The previous year sales volume was at 1.83 lakh metric tons of which domestic was 96,000 metric tons and exports were at 87,000 metric tons.

On a year-to-date basis, we achieved a sales volume of around 5.19 lakh metric tons of which domestic was 3.67 lakh metric tons and exports were at 1.52 lakh metric tons. The previous year sales volumes were at 4.95 lakh metric tons of which domestic was 3.26 lakh metric tons and exports were at 1.69 lakh metric tons. The average selling price of sugar for the quarter was about INR 36.52 per kg compared to the previous year's selling price of INR 34.06.

On a year-to-date basis, our selling price was INR 35.98 per kg compared to the previous year price of INR 34.48. The closing stock as of March 2023 was at 2.45 lakh metric tons as at the end of March 2023 which is valued at around INR 33 per kg. As for the revenue from sugar operations in quarter 4 the revenue from sugar segment was INR 498 crores against corresponding period of previous year which was at INR 693 crores. This drop was mainly on account of lower export sales volume as during the current year, the exports were based on a quota released by the government.

On a year-to-date basis, the revenue from sugar segment was INR 2,025 crores against corresponding period of previous year, which was at INR 1,833 crores, an increase of 10.47% over previous year. I would like to place on record that there are no dues as far as the cane is concerned, all FRP paid on time.

On the Cogen operations in quarter 4, we generated a power of around 2,034 lakh units against previous year which was at 2,022 lakh units. On a year-to-date basis we generated a power of around 4,960 lakh units as against the corresponding period of previous year, which was at

4,110 lakh units. In quarter 4, we exported power around 1,060 lakh units as against the previous year, which was 1,032 lakh units.

On a year-to-date basis the power exports were at 2,700 lakh units as against the corresponding period of the previous year, which was at 2,141 lakh units. The average power tariff for quarter 4 was INR 5.11 per unit as against the previous year which was INR 4.56 per unit. On a year-to-date basis, the average power tariff was INR 5.26 per unit as against the previous year which was at INR 4.35 per unit.

The revenue from Cogen operations in quarter 4 was INR 104 crores against previous year which was INR 86 crores. On a year-to-date basis, the revenue from Cogen operations were INR 253 crores against the previous year, which was at INR 163 crores. On the distillery segment we sold around 376 lakh liters during quarter 4 compared to the previous year sales volume of 278 lakh liters of which ENA was 156 lakh liters and the previous year numbers were 91 lakh liters. Ethanol was 220 lakh liters and the previous numbers were 187 lakh liters.

On a year-to-date basis we sold around 1,044 lakh liters compared to the previous year sales volume of 847 lakh liters of which ENA was 399 lakh liters. The previous year ENA sales were at 376 lakh liters and ethanol was 646 lakh liters against previous year which was at 471 lakh liters. On the price realizations from distillery operations, we realized INR 62.56 per liter as against the previous year realization of INR 58.96 per liter. This is more to do with the mix of products and also the price increase that we got during the year as announced by the government.

On a year-to-date basis our price realizations from distillery operations were INR 60.39 per liter against the previous year's realization of INR 57.10. The revenue from distillery operations was INR 238 crores compared to INR 167 crores during the previous period. On a year-to-date basis our revenue from distillery operations was INR 644 crores against the previous year which was at INR 491 crores.

I am now moving into the Nutra segment. In quarter 4, the turnover from Indian operations were around INR 5 crores as against INR 9 crores in the previous year. On a year-to-date basis the turnover was INR 55 crores against the previous year's turnover of INR 64 crores. The division registered a marginal increase in profitability though there was a 13% reduction in revenue on account of better realization and reduced input cost.

The Nutra segment on a consolidated level in quarter 4 had a turnover of INR 59 crores against the corresponding previous year which was INR 73 crores. On a year-to-date basis, the turnover was INR 259 crores against the previous year of INR 277 crores. I would like to talk about the employee-related expenses. The employee benefit expenses for quarter 4 were at INR 35.56 crores as against INR 33.17 crores and on a year-to-date basis the expenses were at INR 157.93 crores as against INR 134.82 crores.

The increase in cost was on account of annual salary increases, headcount increase due to the expansions what we have been carrying out in the distillery operations and strengthening of the team to better manage the safety related areas. On the other expenses for quarter 4, it

increased by about INR 16 crores i.e. INR 148 crores in the current year versus the previous year which was at INR 132 crores.

The incremental cost is on account of the increase in production, consumption of power and fuel, repairs, and maintenance, increase in advertisement expenditure on retail sales and corresponding increase in packaging, dispatching and freight cost, increase due to higher exports and retail sales, increase in selling and administration expenses.

Our finance cost was INR 10.37 crores compared to the previous year, for the same period which was at INR 10.15 crores. On a year-to-date basis, our finance costs were INR 36.03 crores as against the previous year's cost of INR 46.09 crores. This reduction in finance cost was possible despite the increase in interest rates during the financial year because of the better working capital management.

The capex program continues to be kept very tight and on a year-to-date basis we have spent around INR 189 crores. This includes the spending at Sankili 120 KLPD project cost where we incurred around INR 104 crores. All the capex we are currently investing is towards value addition, safety, environment, and productivity improvement. The standalone loan was at INR 155 crores, INR 14 crores decrease over previous quarter and short-term borrowings were at INR 353 crores, INR 300 crores increase over previous quarter. This increase in short-term borrowings is on account of working capital requirements.

I am now moving into the refinery business. As far as the refinery sugar production for quarter 4, we were at 2.29 lakh metric tons as against previous year production of 2.22 lakh metric tons. The year-to-date sugar production volumes were at 7.78 lakh metric tons as against previous year production of 6.11 lakh metric tons. Refined sugar sales volume for quarter 4 was 1.31 lakh metric tons as against the previous year sales volume of 1.98 lakh metric tons.

The year-to-date sugar sales volume was 7.18 lakh metric tons as against the previous year's sale of 6.23 lakh metric tons. PBT for quarter 4 was a loss of INR 45.32 crores as against the previous year, quarter 4, which was profit of INR 27.41 crores. The year-to-date PBT was a loss of INR 253 crores as against the previous year's loss of INR 13.27 crores. As far as the loans position in refinery business is concerned, the long-term borrowings of March 31, 2023, were at INR 200 crores and last year same period, this was also at the same level. The short-term borrowings as of March 2023 were at INR 620.04 crores. The borrowing as of March 31, 2022, was at INR 648.41 crores. We are now open to taking questions. Thank you.

Moderator:

Thank you very much sir. We take the first question from the line of Mr. Karan Mehta from Nirzar Securities. Please go ahead.

Karan Mehta:

Sir. Thank you for the opportunity. So, my first question is, we have booked an expense due to loss on impairment of investments in subsidiary and JV to the tune of INR 155 crores in Q4. So, I just wanted to know for which subsidiaries and JVs does this expense pertain to and the breakup of expense for each subsidiary and JV? Is there a possibility of these expenses to get reversed?

A.Sridhar: Yes, the impairment is in specific reference to three companies. One is the Parry Sugars Refinery India Private Limited. We have taken an impairment to the extent of about INR 106 crores. This is based on the future projections of cash flow, where an independent valuer has carried out the valuation and based on the valuation analysis, there was an impairment that was required to be carried out. Number two is with reference to the joint venture between EID Parry and Synthite which is Algavista. On this joint venture, we have taken an impairment to the extent of INR 23 crores. Number three is, with reference to the investment made in Alimtec, a Chilean company, where we have taken an impairment to the extent of about INR 26 crores as it was not economical for us to run this operations.

All these three put together is an impairment to the extent of INR 155 crores.

You asked about the question of whether there will be a reversal to the impairment. We have considered various assumptions in our financials based on the current estimates. At this moment, we would not be in a position to say whether there will be a reversal to the impairment. We will work towards to see how this impairment could be reversed at least in the case of the refinery business and Algavista.

Karan Mehta: Okay sir, my second question is, we have mentioned, in your notes, that, the parent company is willing to finance activities for subsidiary, Parry International, DMCC. So how much more capital are we planning to infuse in this and in any other subsidiaries or JVs?

Suresh Kanan: Good afternoon. This is regarding Parry International, DMCC. Parry International, DMCC is basically a trading company that is located in Dubai to serve the Middle Eastern and the nearby markets. So, this does not require much of a capital infusion because it does trade on a back-to-back basis.

A. Sridhar: As far as the other subsidiaries are concerned, there is no capital infusion that has been projected as of now.

Karan Mehta: Okay. And sir, my last question pertains to our business segment. So, the performance of our refinery subsidiary has worsened in this quarter. Also, we have seen an operating loss on the Nutra segment and in the distillery segment. We have seen a good top-line growth, but the margins have been declining very sharply. So, what are the reasons for these and what is the outlook for all these segments in FY '24?

Suresh Kanan: As far as the refinery is concerned, your question is pertaining to the fourth quarter operation. With respect to the fourth quarter, our sales volumes were lower compared to our normal levels of the previous year's fourth quarter. That was one of the contributors and we expect this to be made up in the current year in terms of the sales volume is concerned.

Second is we had to take some mark-to-market entries as well as some forex losses on account of variation of the Indian Rupee versus US dollar. We do not expect this situation to continue because these are related to the movement between the two currencies during the previous financial year.

The outlook of the refinery business is basically based on three main pillars. One is with respect to availability of adequate spreads in the market. Second is with respect to the cost of refining which is largely driven by the fuel cost. And third is with respect to cost of money which is the finance cost that what we incur. In the external sense, the white premiums are strengthening. We can look forward to an improved spread atmosphere because of the tightness in supply and a possible monsoon impact on the Indian sugar production, thereby curtailing the export of Indian sugar in the current year.

Energy prices are coming down and we are seeing the effect of that flowing through in the coming financial year. Yes, interest rates have peaked at this point of time in our opinion. So going forward we should be able to also control our finance and interest costs to a larger extent. So that is the prognosis as far as the refinery business segment is concerned.

A. Sridhar: On the distillery segment, while the top line has grown, there has been a pressure on the bottom line. There are two factors which are influencing the distillery profitability. One is the fuel prices that has moved up substantially during the year compared to the previous year. Coal prices have gone up. Number two is, we actually do a transfer of molasses based on the market price from sugar segment to the distillery segment and there has been an increase in the molasses transfer price and because of which we will see the profits being better in sugar segment and is lower in the distillery segment. This is again to do with the market price of molasses which is what we adopt for the transfer pricing between the sugar segment and the distillery segment. I hope I have answered your question.

Karan Mehta: Okay, so moving forward we expect better margins in the distillery segment?

A. Sridhar: The fuel prices are getting normalized, and we see there is good margins to pick up in the subsequent periods and a lot of efficiency improvements are also being worked out. So, we will definitely see a good progress as far as the distillery bottom line is concerned. I will request Mr. Muthu Murugappan to respond with reference to the nutraceutical segment.

Muthiah Murugappan: Yes, thanks Sridhar. From the Nutra perspective, we had two reasons for the consolidated loss. The expenses on the Flomomentum which is the B2C business at Valensa, that is still on a burn mode. There is obviously a large expense worked over there. We also had some product loss on account of a fire accident in a warehouse which is a third-party warehouse in Florida. There is an insurance claim, which we are expecting to receive but then that has been expensed as a loss in this quarter. We are optimistic of receiving that insurance claim in the subsequent quarter.

Karan Mehta: Okay, okay. Thank you, sir, for all the clarifications. That was very helpful. Thank you.

Moderator: Thank you, sir. We take the next question from the line of Mr. Ritwik Sheth, One-Up Financial. Please go-ahead sir.

Ritwik Sheth: Hi, good afternoon, Sir. Sir, just a couple of questions. Firstly, on the refinery, you know in the presentation we have mentioned that the refinery spread is about \$43, \$44 per ton and our conversion cost has spiked up because of higher fuel prices. So, with this reducing fuel prices, can we expect this negative spread to be at least break-even in FY '24?

- Suresh Kannan:** Thank you for the question. There are a couple of areas of betterment that we will see in the coming years. As you rightly mentioned, the fuel prices are coming down and that should flow through the operating cost of the refinery going forward.
- Second is with respect to the spread which we are also seeing at a higher level than what had been there in previous years. This is primarily due to tightening up of demand supply in the sugar market and it is expected to remain tighter as per the projections as what our MD also explained in his opening note. As a result of which we should be in a better situation going forward.
- Ritwik Sheth:** So, we can at least be break-even in FY '24, at least we can assume that.
- Suresh Kannan:** Yes, that is what we are working towards.
- Ritwik Sheth:** And sir, on this refinery, you mentioned in your opening remarks that we have taken a INR 106 crore impairment charge for PSRIPL. So, anything else which can come in the future, or this is more or less done with any of these impairments? And specifically, what is this related to, if you can throw some light on that also, please?
- Suresh Kannan:** Yes. As far as the impairment with respect to the refinery investment is concerned, we have taken a look at the forward possibilities of the refinery and this has been factored in terms of the workings that have been made to arrive at the current impairment value.
- Ritwik Sheth:** Okay. And sir, the total debt including the loan given from EID Parry to the refinery subsidiary would be close to INR 800 crores. Is that assumption, right?
- A. Sridhar:** You are asking about the loan position?
- Ritwik Sheth:** Right, in the refinery.
- A. Sridhar:** In the refinery business, the loan position from long-term borrowings is about INR 200 crores and on the short-term borrowings it is INR 620 crores.
- Ritwik Sheth:** Okay. Sure. And, sir, one final question from my end. We have exceptionally turned around the standalone EID Parry business in the last three years to four years and we are generating cash flow from the standalone excluding the other income, the dividend income that we receive from Coromandel. What are our thoughts in terms of dividend payout from EID Parry, especially after FY '24 since most of the capex in the distillery side would be completed? So, if you can give us some color on that, it would be very helpful.
- Muthiah Murugappan:** So, I am, Muthu here, let me answer that question. So, I think the intent is to, as you said, run a very robust business on the core business which is a standalone business and ensure that that business is cash generating which will then enable us to better imagine the future and better implement and execute on our future plans using the power and strength of the standalone business. I think that is the intent with which we are taking things forward.
- So, I would like to comment on the dividend. I think the aspiration of course will be to pass the dividend through, but I think I would like to stay with the standalone business and reiterate the



focus on strengthening the standalone business and then growing it further using the sort of power of the standalone P&L and balance sheet.

Ritwik Sheth: Okay. Sure, Sir. Thank you and all the best.

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

S. Suresh: Yes, thank you everyone for taking the time out for this investor call. And I hope to see you in the next call. Thank you.

A. Sridhar: Thank you.

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