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August 18, 2023

BSE Limited
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Rotunda Building,
Phiroze Jeejeebhoy Towers,
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Mumbai – 400 001.
Scrip Code: 500125

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
Plot No. C/1, G. Block,
Bandra Kurla Complex,
Bandra (E),
Mumbai – 400 051.
EIDPARRY

Dear Sir/ Madam,

Subject: Transcript of Conference Call for Analysts and Investors on unaudited Financial Results for the quarter ended June 30, 2023

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we herewith submit the transcript of the Analyst / Investor Conference Call held on Thursday, August 10, 2023, on the unaudited financial results for the quarter ended June 30, 2023.

We request you to kindly take the above information on record.

Thanking you

Yours faithfully
For **E.I.D.- PARRY (INDIA) LIMITED**

BISWA MOHAN RATH
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Biswa Mohan Rath
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Encl: As above

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"E.I.D.- Parry (India) Limited

Q1 FY'24 Earnings Conference Call"

August 10, 2023

MANAGEMENT:	**MR. S. SURESH – MANAGING DIRECTOR – E.I.D.- PARRY (INDIA) LIMITED** **MR. MUTHIAH MURUGAPPAN – WHOLE TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER – E.I.D.- PARRY (INDIA) LIMITED** **MR. SURESH KANNAN – WHOLE TIME DIRECTOR – PARRY SUGARS REFINERY INDIA PVT. LTD** **MR. A. SRIDHAR – CHIEF FINANCIAL OFFICER – E.I.D.- PARRY (INDIA) LIMITED** **MR. BISWA MOHAN RATH – COMPANY SECRETARY – E.I.D.- PARRY (INDIA) LIMITED**
MODERATOR:	**MS. NEHA MEHTA – DAM CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the EID Parry (India) Limited's Q1 FY24 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 then zero on your touch-tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Neha Mehta from DAM Capital Advisors. Thank you and over to you, ma'am.

Neha Mehta: Hi, a very good afternoon to all. 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 CEO. Mr. Suresh Kannan, Whole-Time Director, Parry Sugars Refinery India Private Limited. Mr. A. Sridhar, CFO 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, sir.

S.Suresh: Thank you. Good afternoon to all. I am Suresh here. It gives me pleasure to be part of this analyst call to share and update on the global as well as Indian scenario and explain the Q1 performance of the company. On the global scenario, global sugar balance for 2022-23 is at a surplus of 3,77,000 MT against the previously estimated deficit of 2 MMT, majorly due to increase of estimated production from Brazil. Buoyed by lower estimates from India, the raw sugar futures touched the decadal high of 27 cents per pound in the month of April.

Amidst ample supply from Brazil, the raw sugar futures are now trading at around 24 cents per pound as of last week of July. As far as the year 23-24 is concerned, as per the latest estimates, the global surplus is predicted to be around 4.8 million metric tons. The supply concerns due to uneven rains in Thailand and India is partially offset by an increased estimate from central South Brazil. Nevertheless, given a potential El Nino condition, the weather continues to be a very important factor to be monitored in the following months.

On the Indian scenario, with the late onset of monsoon and deficit of rainfall in key growing states, especially Karnataka and Maharashtra, ISMA has released the latest production estimates to 328 lakh metric tons for the year 22-23. This is after considering 40 lakh metric tons diversion to ethanol, which means the total production for the year shall be at around 368 to 370 lakh metric tons. So far as the ethanol blending program is concerned, the government is targeting an average of 14% blending by November 23.

Though there are challenges in offtake of ethanol in some OMC depots and in allotment of FCI rice for grain distilleries, these are short-term phenomena and we are positive that this should be fixed for good very shortly. As may be known to you all, there is an upward revision of FRP announced recently. The FRP for a base recovery of 10.25% is fixed at INR 3,150 per metric ton against the INR 3,050 per metric ton of last year. We are hopeful that the government would consider an upward revision of ethanol price in commensurate with the increase in the FRP.

On Q1 performance, the standalone revenue from operations for the quarter ended 30 June '23 was INR 698 crores in comparison to the corresponding quarter of previous year of INR719 crores. Loss before depreciation interest and taxes, the return for the quarter was INR15 crores compared to a profit of INR11 crores in the corresponding quarter of the previous year before exceptional items.

Standalone loss after tax for the quarter was INR46 crores against a profit of INR13 crores in corresponding quarter of previous year. The profitability of sugar and cogeneration segments are lower in Q1, 23-24 as compared to corresponding quarter of previous year on account of reduction in export volumes due to restrictions imposed by the government and reduced power realization as well. However, the company has managed to crush higher cane volumes of around 4 lakh metric ton in the current quarter as compared to the 2.7 lakh metric ton in the corresponding quarter of the previous year.

The distillery segment has performed better owing to higher realization and increased volumes attributable to the new 120 KLPD dual feed distillery facility in Sankili. Further, the company has commenced the grain based operations also in Sankili distillery during the quarter. The standalone Nutraceutical segment has registered a loss during the current quarter on account of reduced sales due to the existing certification issues in Europe. I would now request our CFO Mr. Sridhar to explain you the segment based financial performance. Over to you Mr. Sridhar. Thank you.

Sridhar: Thank you Suresh and good afternoon to you all. I would like to share with you the key operating parameters for the quarter 1. The crushing operations were carried out in all our Tamil Nadu and Andhra Pradesh sugar mills during the quarter and would like to share the quantitative details. We crushed around 4.01 lakh metric tons when compared to the corresponding quarter of previous year which was at 2.69 lakh metric ton. The recovery for the first quarter has been at 9.05% compared to the previous year which was at 9.35%.

We produced around 33,000 metric tons of sugar as against the corresponding period of previous year which was at 24,000 metric tons. The cane landed cost was Rs.3,267 per metric ton against corresponding quarter of previous year which was at Rs.3,221 per metric ton. For the quarter 1, we achieved a sales volume of around 1.21 lakh metric tons of which the domestic volumes were at 1.14 lakh metric tons and exports were at 7,000 metric tons and the previous year sales volumes were at 1.44 lakh metric tons of which the domestic was 99,000 metric tons and exports were at 45,000 metric tons.

Selling price of sugar for the quarter was around INR36.30 per kg compared to the previous year selling price of INR35.18 per kg. The closing stock at the end of June was at 1.57 lakh metric tons as against the previous year same period which was at around 1.30 lakh metric tons. The revenue from sugar operations in quarter 1 was INR473 crores against the corresponding period of previous year which was at Rs.526 crores. The drop was mainly on account of lower export sales volume.

All FRP's were paid on time. With reference to our cogen operations in quarter 1, we generated a power of around 522 lakh units as against the previous year which was at 869 lakh units. In quarter 1, we exported power around 243 lakh units as against previous year which was 584 lakh units. The average power tariff was INR4.05 per unit as against the previous year which was at INR6.93 per unit.

The revenue from cogen operations were INR19 crores against previous year which was at INR64 crores. In the distillery segment, we sold around 343 lakh litres during quarter 1 compared to the previous year sales volume of 213 lakh litres of which ENA was 121 lakh litres and the previous year ENA volumes were at 99 lakh litres. The ethanol volumes were at 222 lakh litres and the previous year ethanol volumes were at 114 lakh litres. Our price realizations from distillery operations was INR61.08 per litre against previous year realization of INR57.82 per litre.

The revenue from distillery operations was INR209 crores compared to INR125 crores during the previous year. As far as the Nutra business is concerned, in Q1 the turnover from Indian operations was around INR5 crores as against INR13 crores in the previous year. At the consolidated level, the Q1 Nutra business turnover was at INR44 crores as against corresponding previous year which was at INR64 crores.

The employee benefit expenses for Q1 were at INR49.81 crores as against INR42.12 crores. Increase in cost is on account of annual salary increase, head count increase due to expansions in distillery operations and strengthening of the team to better manage the safety related areas. Our other expenses for Q1 increased by INR3 crores that is INR130 crores in current year from INR127 crores. This incremental cost is on account of increased production and consumption of higher power and fuel and repairs & maintenance.

On the finance cost for Q1, we were at INR 12 crores compared to the previous year which was at INR 8 crores. This increase in finance cost was on account of long term loan pertaining to the ethanol project expansion and increase in working capital interest rates and higher borrowings in current year. The capex spends in Q1 was around INR47 crores. This increase in spends incurred at Haliyal 120 KLPD was INR26 crores. All the capex investing currently are towards capacity expansions, value additions, safety environment and productivity improvements.

The standalone long term loan position as of June 2023 was at INR186 crores the increase in loan position was by about INR30 crores over the previous quarter. The short term borrowings were at INR243 crores the decrease of INR109 crores over the previous quarter. The increase in long term loans is on account of the capacity expansions.

On the refinery business, the production volumes for Q1 was at 1.36 lakh metric tons as against the previous year production of 2.25 lakh metric tons. The refinery's sugar sales volume was low in quarter one of 2023 for 1.33 lakh metric tons compared to 2.02 lakh metric tons in Q1 of last year. This was due to issues at the destination markets. Hence, we utilized this opportunity to pre-pone the annual plant maintenance by shutting down in quarter one. Further, the mark to market loss was on the higher side compared to previous year.

The Loss before tax for quarter one was of INR 96.52 crores as against the previous year same period loss of INR 6.32 crores. On the loan position of refinery business, the long term borrowings continue to remain at INR 200 crores. The short term borrowings as of June 2023 was at INR 596 crores. The borrowings as of March 31, 2023 was at INR 620 crores.

At the consolidated level as of June 2023, the loan position excluding the loan which has been given by EID Parry to refinery business was at INR 1026 crores as against INR 1028 crores as of March 2023. We would like to keep the floor open for any questions to be answered from our end.

Moderator: Thank you very much. The first question is from the line of Akshay Ajmera from Nirzar Securities. Please go ahead.

Akshay Ajmera: Thanks for giving me the opportunity, Sir. My question is regarding the branded sugar which we intend to sell. Are we selling our branded sugar at some discount as compared to our competitors and how much is the margin or impact on margins? Are we planning to reduce those discounts? That's number one.

And second, Sir, this quarter, as in the opening remarks, it was mentioned that cane crushing was higher by almost 50% Y-o-Y. But we still have made losses on account of reduced power realizations. So could you please help us understand why there is substantial rise in cane crusing. Whereas there is a decrease in power earnings? These are my two questions.

Management: Can you repeat the last question?

Akshay Ajmera: So cane crushing this quarter was almost 50% higher than the previous quarter in the same years. However, the realizations from power was weak. So could you help us understand why the substantial rise in the cane crushing could not compensate for decrease in the power earnings? And also if you can share the outlook on the power prices going forward? Thank you.

Muthiah Murugappan : So Akshay, hi. Good afternoon. From the branded sugar perspective, we don't sell at a discount as compared to our competitors. In fact, we're a well-known, more premium brand. So we do get premiums from prevailing trade prices at INR 2 to INR 3 per kg at the entry level. At the entry level, there are value added products which do fetch us higher price realisations. So that's our effort. So we do not at a discount. This business is profitable. But the focus on this business is to really grow distribution and then improve the depth and then subsequently the breadth of our products and product placement.

In terms of your second question, yes, cane crushing was higher.. We started Tamil Nadu season s earlier. And we did have the season in AP which extended a little longer than what we had estimated.

In terms of the losses on power generation, the number of units of power generation itself was much less,and that was because of couple of reasons. We had a shorter season in Karnataka, last year ie., in the Q4 of FY '23. To that extent, you won't have as much bagasse available, which is a by-product, which is fired in the boiler for cogeneration. Also, for some of the bagasse which is available, we had good realization through bagasse sale. So this is why we chose to sell the bagasse in the open market because we got good realization.

So both of these combined together resulted in lower power generation. Hence, the revenue from the power segment is also lower as compared to the same quarter last year. In terms of the outlook for power prices, I mean, at present they are obviously trading lower than what pricing we had last year. Last year was quite encouraging for power prices. So we will have to see how these trends will probably be. I don't want to comment or speculate too much on how the prices would trade in the future.

Akshay Ajmera: Just a quick follow-up, sir. So you said that the profits were not in the power sector because of diversion of bagasse. So could you explain a little bit more on that?

Muthiah Murugappan : When you crush sugarcane, your bagasse is the by-product. This bagasse gets fired in the boiler, which helps to generate power. When you have lower sugarcane crushing, you generate less bagasse. So you really don't have bagasse to fire in the boiler. So then you can't generate power. You end up just picking up power from the grid.

Also, when you have that bagasse lying around, and the open market offers you a good realization as opposed to firing in your own boiler, you will realize that in the open market. That's what we did. Hence, power generation units fell.

Akshay Ajmera: I got it, sir. So where is that profit, the selling of the bagasse profit, it will sit under which division then?

Muthiah Murugappan: Under the sugar segment.

Akshay Ajmera: Sugar segment. Okay. But sugar segment numbers are also very poor. So that is why I'm trying to understand.

Muthiah Murugappan : So the sugar segment, if you look at Q1 last year, we exported 45,000 tons of sugar. We had a good export program. Of course, the export program is not there now. We had some spill-over volumes of contracted exports, which we did about 6,000 tons to 7,000 tons. To that extent, when you export, your exports are at a substantially higher realization than the prevailing domestic prices. So your revenue will grow. Your revenue will be much higher compared to what you would get when you're selling in domestic. So that's the delta that we see on the sugar segment.

And if you're selling at a higher realization, you realize more profit as well, right? So that's the reality.

Akshay Ajmera: All right, sir. I'll join back the queue. Thank you so much.

Moderator: Thank you. The next question is from the line of Ajit, an individual investor. Please go ahead.

Ajit: Hi, sir. Thanks for the opportunity, sir. So my first question is, can you please quantify the loss in the sugar business on account of reduction in export volumes? And the second question is, sir, we are planning a strategic expansion in the FMCG, which usually require high advertisement and promotional expenses to create the brand. So how the expansion into FMCG business will be funded and whether the new brand will be home-grown or are we planning to acquire other brands?

And third and the last question is, can you also please talk more about on the nutraceutical business, which is making losses? And when can we expect this to be turnaround? And what are our strategies with respect to that?

Muthiah Murugappan: So, let me just cover your second two questions, your data points on the first question is on the sugar export related. So on the FMCG expansion, this is obviously being done in-house at this point in time. So I think at the right time, we will give the right structure to the business. And the business with the ethanol blending program, I think we should have some good EBITDA generation and internal accruals in the business going forward.

And I think once we structure the FMCG vertical appropriately, we will also look at financial partnerships to help us grow this business, but all of this is in the right time. We will be open to growing this business organically as well as inorganically. The current sweetener line runs under the Parry brand. From a branding perspective, again, we will be open to organically looking at new brands. And, of course, if we take inorganic routes in the future, I'm sure we'll be able to buy in. It will anyway entail new brands coming into our port.

You had a question on the nutraceutical business. The nutraceutical business registered a much lower turnover and also losses in this quarter. And that is because of some certification issues in Europe. The certifying body was banned. The body which certifies all our nutraceutical exports to Europe was banned by the European Union Authorities. So we are being recertified by another certifying body, and we are expected to get back on track in H2. So that's from a stand-alone perspective.

From a consol perspective, we have the US business Valensa. There we have been in the red because we've been running a B2C business called Flomentum, which we launched about three or four years ago. That business has taken time to scale up. We have actually ever since chosen to scale back on Flomentum in order to put the business on a better path. We had some outside in views on the business, and I think the focus now will be in improving the margins and profitability of the business. You will see this traction play out in H2.

From a broader nutraceutical perspective, I think we have sort of commented publicly that we are strategically reviewing the business. That review does continue, and we have outcomes from that. We will aspire to put the business on a better strategic path.

In terms of the Delta on the exports front, because we didn't have exports this year, that's a INR12 crores impact on the bottom line because we had 45,000 tons of exports last year at a higher realization, significantly higher realization to prevailing domestic prices, and that's the INR12 crores difference. It really benefited us in Q1 of FY ‘23.

Ajit: Okay. So, can I just take one follow-up? What is the current turnover and margin in FMCG business, sir?

Muthiah Murugappan: So, as I said, we run this business within the offices of the company. We do have internal data points. It's a profitable business, but I think it will only be responsible on my part to talk about margins once the business is structured independently and appropriately. So, I wouldn't like to comment on this at this point in time.

Ajit: Okay, sir. Thank you so much. I'll join back in the queue.

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

Gautam Dedhia: On your website, you've launched some rice and millet products. Just want to understand, what's the gross margin in that category?

Muthiah Murugappan: So, Gautam, the launch of rice and millets, the whole pulses, dals, that's a test and a trial launch. It's a pilot only in Chennai, and we figured it's better to learn about these categories in a lower cost and a more incisive manner by actually doing a pilot. We have a good team in-house, so we've been able to execute this in quick time. So, at the pilot phase, I think we're really learning and gaining insights and data points from the market to sharpen our proposition and then do a much more larger scale launch. So, I think with the pilot, it's not really prudent to discuss margins. Of course, the industry has certain margins, which obviously we will aspire towards matching in steady state and even beating.

Gautam Dedhia: Okay, so just a broader question. So, in the annual report, you mentioned you want to get into the food category. So, just how are you going to think about what category you want to get into? So, is it based on market size, competition level, penetration level in those categories in terms of organized share or minimum margins of the categories? You could just throw some light on your thought process.

Muthiah Murugappan : So, Gautam, from a broader perspective, we did some understanding of India per se. I mean, there are certain categories which are going to or certain segments which are going to drive GDP growth and big contributors to GDP growth over the next sort of five to ten years. Consumer, e-commerce lifestyle is a big element in that sort of puzzle. So, given that we are from the sweetness perspective in the consumer market, we decided to look at this segment and see how we could go deeper.

The average kitchen bill in India is about INR8,000 -odd, give or take. Of course, bills will be higher and lower, but that's the average. You know, sweetener is a small share of that. With the saliency of the brand, how can we get a larger share of the kitchen bill? Because that obviously synergizes with distribution, synergizes with our consumer base, and will bring synergies with the marketing mix. That's one way we thought about it.

We thought about categories which are not fully branded. You know, if you look at salt, there are some large players there, and they're branded almost 90%, 95%-odd. But there are categories which are not, where the branding levels are sub 30%. In fact, in the sweetener category, the branding saliency is only 8%. So, we looked at where there is a good headroom, where there are tailwinds to grow, and that's why we looked at piloting and learning about categories such as millet, dal, pulses, rice. So, that's how we've been thinking about it.

In all of these categories, sweetener and sweet products included, I think there will be a base level of product which will come at a certain gross margin, but will give you volume and scale. As you take the journey further, there will be a sort of value-addition product, and we have that already with jaggery and with Amrit Brown Sugar, wherein you grow substantially upon the gross margin. And I think you'll need that combination to have a successful product range.

Gautam Dedhia: Okay. There's one last question. So, on the refinery, this has been a very challenging division for us. So, can you just highlight what is the thinking going forward, and when do we have a stop loss, to say?

Suresh Kannan: Yeah. On the operating part of the refinery, I would like to add the following comments. One is the first quarter had been weak for the refinery, principally on account of the war in Sudan. So, we had contracted sales volume. The trade basically deferred this volume into the second quarter, and therefore, we had to downsize our operations during the first quarter of the year.

Going forward, we are looking at, you know, a scenario in which the white premiums are holding strong. There is a possibility that there will not be any exports from India in the coming season. And on the cost side, we are seeing softening of energy prices and material prices. So, we are looking at the possibility of recovery in the second, third, and fourth quarter of the year. That's on the operating part of the refinery.

S.Suresh: Yeah. Just to add, to Suresh comments, we are also evaluating other augmentation of capabilities for the refinery business in terms of we have from the international trade side, then there is international sourcing and the premium optimization opportunities. Those are the areas we are evaluating for augmentation of capabilities through proper collaboration with any of the international trade houses.

That exercise is on. Operationally we are one of the most cost efficient refiners in the world. So there are other areas where we are planning to augment our capabilities. As Mr.Suresh Kannan was mentioning, hopefully we should be able to see the light very soon.

Gautam Dedhia: Okay and what is the MTM loss you booked this quarter?

Sridhar: The MTM net impact for the first quarter has been around $ 3.6 million.

Gautam Dedhia: 10.6 million?

Sridhar: $ 3.6 million.

Gautam Dedhia: $3.6 million. Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ritvik Sheth from One Up Financial. Please go ahead.

Ritvik Sheth: So, in the annual report, we have spoken extensively about transforming into a food company over the long term. So, you mentioned a few things already in the call. So, can you give us some insights into where we plan to take it forward, to what segment, what kind of capacity we are envisaging, and what is our strategy to scale up?

You mentioned that we are doing a pilot program in Chennai by launching Dal, Pulses, and a couple of other products. So, how far are we from starting this journey or we have already started the journey? If you can give us some more colour on this.

Muthiah Murugappan: Yeah. So, I think, Ritvik. I covered the segments and the pilot in my answer to a previous question. So, in terms of scale-up strategy, I think with sweeteners, we are already on the way. I mean, the retail, if you look at our investor presentation from a couple of months ago, the retail segment contributes close to 30%, and then I think 27% to be precise, of our overall sweetener volume. That will quite substantially cross 30% as we conclude this financial year.

So, with sweetener in the consumer segment, we are already on our way. We are in about a lakh and a half outlet and we will inch closer to 2 lakh this year. So, it is not a large distribution. That distribution, I think, really has to grow substantially higher. And I think as that distribution grows, we will start looking at categories and start pouring into categories wherein we see opportunity.

And I talked about some of that in the answer to the previous question. So, I think we will use that retail way. So, that is why we are looking at millets, looking at pulses, looking at dals, looking at other sweetner products wherein products also synergize and synchronize with the distribution that we are already building. I mean, B2C, for example, is one thing which we will not look at because we do not have distribution or we do not have that muscle which has already been built. So, the scale-up will really happen to get more share of the kitchen shelf and to leverage the synergies that the current marketing mix already provides. And in categories wherein there is a headroom for growth and there is a headroom for branding. Branding the unbranded is something to focus, which we have understood well with the sweetener category. I think prior to us, there was no one really branding this category.

It is largely an FMCG experience team which leads this initiative. And that is obviously a muscle which we built very well in terms of branding an unbranded segment. And I think those are areas wherein we will jump in and grow.

Ritvik Sheth: Okay. and any thoughts that you plan to do, whether this will be an asset light model?

Muthiah Murugappan : Largely an asset light model. I mean, with Millets and the Pulses, for example, we have no factories, no machines. We only control the source, the supply chain and the quality control, and of course the branding and distribution. All of that expertise is with us and that is largely a people and a system-oriented approach. So, it will be an asset light business.

Ritvik Sheth: Okay. So, just taking a step back, you know, if I look at our business, our sugar business is there including ethanol business. Then we have the refinery which is an adjacency of being a converter and selling it. Then we have Nutraceuticals which we have been trying to scale up and now this is a fourth engine for us to, you know, get into more of a food, food commerce.

Where is our, you know, core strategy to expand in Nutraceuticals, it is not scaled up. So, refinery also we are trying to turn it around. So, you know, how should one look at our business out of the four, where will be our focus in terms of putting in more effort, time effort at the top management. If you can throw some light on that please.

Muthiah Murugappan: So, Ritvik, from the asset allocation perspectiveyou have seen a substantial amount of asset allocation going into the bioethanol business over the last three years and I won't spend more time discussing that. I think the next wave of substantial asset allocation will go into the consumer side as we gear up the business, you know, functioning it independently and then subsequently grow and scale.

That is where asset allocation will be channeled into. Of course, the core ethanol business and the core operations will, you know, see this sort of incremental capexes from a more, you know, run of the mill maintenance kind of area. From the refinery and the Nutra prespective, as I said, I think, as Suresh spoke about to the refinery business, you know, we are working through partnerships and I think we are working to bring these partnerships to ensure that the business is on the right strategic path.

Similarly, from a Nutra perspective, you know, we have got some outside in views in terms of helping the business to do better and that is why you know, we discontinued the Flomentum operations, in the U.S. so that the business can focus on its core, improve its margins and then I think ultimately all of this will really enable us to put the business on a better strategic path. So I think that is what we are sort of focused on. But as for allocation, this far it has been an bioethanol. This may be some incremental asset allocation just to keep things going and, you know, improve efficiencies, make incremental progress, but I think the next wave will ideally be consumer.

Ritvik Sheth: Okay. And, sorry, just to probe this further, you know, on the refinery bit, if you look at our working capital employed and the loans that we have put in, it is about INR800 crores as of date. So, if you are in that process, if we are able to scale down this business, focus our capabilities and financial capital towards transformation into food business...........

Moderator: Mr. Seth, I am so sorry to interrupt, but there is a lot of disturbances coming from your audio. Requesting you to please use the handset mode while speaking.

Ritvik Sheth: So, is there a thought process of, winding down the refinery business or divesting the refinery business so that we can have more financial capital and top management time to focus on transforming into the current FMCG food business over the medium to long term?

Muthiah Murugappan: So, you know, with the nature of operations, it is hard to close down some of these businesses overnight. I think we all, I guess, understand that. Perhaps I will just sort of only say, this business needs partnership. You know, if you go back in history, this was set up along with the Cargill Group who brought in that global commodity and global trade expertise.

And, you know, they moved on and we have ever since running this business independently. We haven't had success. I think let's face it. But I do believe and the team also believes that we do need to bring in partnerships as we talked about. And I think that's the focus. And perhaps, I think once we're there, then the path becomes clearer after that. So, I'll say only this much. I think we have to do this sort of right things for the business in order to put on a better strategic path.

Moderator: Thank you. The next question is from the line of Rajakumar Vaidyanathan, an individual investor. Please go ahead.

Rajakumar Vaidyanathan: So, I have a couple of questions. So, within the states that we operate, Tamil Nadu and Karnataka, I just want to know, given the deficit monsoon in Karnataka and Tamil Nadu, would there be any risk in terms of the volume of crushing that we expect in the upcoming years?

S.Suresh: Yeah. As things stand, the rains have been delayed in Karnataka. July has been better. August is we are just keeping our fingers crossed how it is going to pan out. As things stand, the estimates will be similar to what ISMA has been doing for the next season. There could be a drop of yield in Karnataka to the extent of three to four tons per acre. That's what we are anticipating.

Tamil Nadu, as such, there is standing cane available. The weather conditions are not so favorable in terms of the recoveries. What we used to crush in Tamil Nadu, the recoveries have dropped some 30, 40 basis points compared to the previous year. So, this is all up to the nature. We have to wait and see. Maybe next call we'll have a better idea.

Rajakumar Vaidyanathan: Okay. And, Sir, do you have any ethanol plants in Tamil Nadu? Are there any plans to do because I saw there is a new policy the government has issued?

S.Suresh: Yeah,the upcoming distillery at Nellikuppam is going to produce ethanol out of syrup and supply. We are the first ones who will be taking advantage of the ethanol blending policy of the government and will be executing that.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Anushri: Hi, Anushri this side. So, around the refinery business, our peer Renuka is making money for the last five to six years in the same business. While we as investors consider Murugappa Group to be very astute and prompt. So, what is causing continuous losses in this business is what is the first question, I want to understand? And as shareholders, we want to also understand that where are we at a disadvantage compared to our competitors. So, we have lost around INR400 crores in this business in the last four years. So, when spreads have been high for last one year or two years, but we were not able to make money.

At the same time, when spreads were low also, we were taking a hit on our bottom line. So, just want to understand where are we at. So, what are we looking at in this business?

Suresh Kannan: Yeah. I would like to answer it this way. With due respect to the competition you referred, I think it is also not a fair statement that Renuka has made money as far as the refining business is concerned over the last five years. That apart, I think I understand the spirit of your question is more from a competitive landscape of advantage and disadvantage.

The principal difference between Renuka and us is basically with respect to the geography because we are located on the East Coast, which is more served by the break-bulk vessels rather than container vessels. The container vessels typically reach to non-aggregated customer base, which typically has a higher margin realization for the sugar that we sell compared to break bulk, which is typically moved in large vessels and therefore with bulk buying and distribution by larger trade houses.

Second one, of course, is the differential freights between the East Coast and West Coast of the country, which is quite well established as a result of which sugar being a traded commodity is sold on a landed cost parity basis. So, if you look at from an operating cost perspective, both the refineries are quite competitive with respect to the operating cost because we are one of the most efficient cost effective refineries on the global circuit as far as re-export is concerned.

That's why we are in a position to operate even when the white premiums fall down in comparison to our high cost competitors who are there in the rest of the region. With respect to the other point that you mentioned, the losses that what you identified are more related to one off incidents that occurred. One was related to the couple of safety incidents that occurred and the other one was with respect to the discrepancy on the stock that we had to take a write off.

So, they are more of one off in nature and not on a continuing operating basis of the business. I hope I have addressed your concerns as far as our position vis-a-vis the rest of the industry.

Anushri: Just a follow up, sir. If we have a locational disadvantage, any plans in the future to shift the refinery plant to any other location on the West Coast?

S.Suresh: A set of such mammoth size relocation itself is a two year timeframe. Not running the business for a year will double the losses what we are having today. That thought is completely ruled out. So, we have to see how do we explore the opportunities having known the disadvantages of being in the East Coast. That's where the collaboration with the trade houses which need sugar from the East Coast is also being thought through.

So, those are the ones which will help us in trying to augment our capabilities and build a better value for the business.

Anushri: Okay. So basically how do you think these partnerships are going to help us in refineries only on the trade side or any strategic benefit also we are going to get?

S.Suresh: Can you please repeat on that?

Anushri: So I just wanted to understand how these partnership are going to benefit us in the future. So, why do we think that we can recover the earlier losses and then turnaround this business with the partnerships that you are seeing?

S.Suresh: Before that we should also understand this refinery has got a history. The majority 70% to 75% of the losses accumulated is on account of the fact that the refinery could not operate after it was commissioned for want of gas. After the fifth or sixth month of operation the gas became dry. So, the business did not operate for four to five years. It restarted in 2014 with a costly proposition of coal. So, that is how it is being operated today. So, those are the disadvantages inherent in the business.

Now even today gas is not available. If at all it is made available, it is also not cost competitive as compared to the coal. So, we have to see despite these disadvantages in the operation part of the refinery, we are one of the lowest cost refiners in the world. So, that is where the strategic advantage lies for anybody who wants to source sugar from this side of this country. Coupled with this is there are, as I mentioned in the starting, there are opportunities to see how do we leverage the sourcing from Brazil and also selling it to various institutions across the world in container mode by making containers available at Kakinada.

These are certain strategies which are being evaluated and try to see how do we bring in our expertise as well as the expertise of the international trade houses and then try to create value for the business and turn it around.

Anushri: Just one last follow-up, sir. What would be the white premium spread in this quarter and also what would be our conversion cost per ton?

Suresh Kannan: For the first quarter is that what is your question?

Anushri: Yes, for this first quarter compared to last year?

Suresh Kannan: First quarter our spreads were in the region of USD 55 and first quarter operating cost is high basically on account of the fact that we had a shutdown for close to 40 days. So, the operating cost on a per ton basis would be close to around USD 53, USD 54 during this period, which is not representative because of the fact that it was during a shutdown period.

Anushri: Okay. So if we remove the shutdown period on a normalized basis, how much would that be?

Suresh Kannan: The current basis is around USD 45 to USD 50, should be the range of operating cost.

Anushri: Okay. Yes, thanks. That's it from my side. Thank you.

Suresh Kannan: Thank you.

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 their closing comments. Thank you and over to you all.

S.Suresh: Thank you all for the participation and your insightful questions. We'll see you in the next investor call. Thank you.

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