"E.I.D.- Parry (India) Limited Q2 FY2024 Earnings Conference Call"

November 09, 2023

ANALYST: **MS. SANJAY MANYAL – DAM CAPITAL**

MANAGEMENT: **MR. S. SURESH - MANAGING DIRECTOR – E.I.D.- PARRY (INDIA) LIMITED**
MR. Y. VENKATESHWARLU – CHIEF FINANCIAL OFFICER - E.I.D.- PARRY (INDIA) LIMITED
MR. BISWA MOHAN RATH - COMPANY SECRETARY - E.I.D.- PARRY (INDIA) LIMITED
MR. SRIKANTHAN - BUSINESS HEAD, NUTRACEUTICAL DIVISION - E.I.D.- PARRY (INDIA) LIMITED

Moderator: Ladies and gentlemen, good day and welcome to EID Parry (India) Limited Q2 FY2024 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 operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Sanjay Manyal from DAM Capital Advisors Limited. Thank you and over to you, Sir.

Sanjay Manyal: Hello everyone, a very good afternoon to all. We thank the EID Parry's management for giving us the opportunity to host this call. On the call today, we have with us Mr. Suresh, Managing Director, Mr. Y. Venkateshwarlu, CFO, Mr. Biswa Mohan Rath, Company Secretary and Mr. Srikanthan, Head, Nutraceutical Division. I hand over the call to EID Parry's Management for the opening comments, followed by question-and-answer session. Thank you and over to you, sir.

S. Suresh: Thank you Mr. Sanjay and good afternoon everyone. It gives me great pleasure to be part of this analyst call to share and update on the global and Indian scenario and explain the Q2 performance of the company.

Global sugar balance for 2022-23 is at a surplus of 1 million metric ton of raw value against previously estimated surplus of 0.78 million metric ton majorly due to the increased production estimates from Central South Brazil, Turkey, Ukraine, and to some extent from Kenya. For 2023-24 as well significant increase in production is expected from Brazil and Turkey. Raw sugar features are trading around the historical highs of 27 cents per pound having reached 12 year high of 27.6 cents per pound. Currently I think even touched at 28 cents per pound as well.

Rising crude prices incentivizing more diversion to ethanol and shipment delays due to heavy rains in Brazil coupled with the expected shortfall in production from India are rendering a bullish outlook for the prices in the medium-term. Regarding Indian scenario, the drop in yield is due to the El Nino conditions in the key serving states of Karnataka and Maharashtra. Our latest estimated production for the sugar year 2023-2024 is expected at 337 lakh metric tons including diversion to ethanol, while the consumption remains flat. It may be noted that the total production for sugar year 2022-2023 including diversion to ethanol was 368 lakh metric tons.

With this expected drop in production, we do not expect permission for sugar exports during this season 2023-24 from the government. As far as ethanol blending program is concerned, the country has reached an estimated 11.5% of blending during the sugar year

2022-23 which is equivalent to a diversion of 4.1 million metric tons of sugar to ethanol. As may be known to you, all the OMCs are yet to announce the ethanol price revision for the year 2023-24 in line with the FRP increase. We are hopeful that the government would favorably consider an upward revision of ethanol price to partly compensate for the FRP increase which has already happened.

Grain based distilleries are yet to get clarity on the rice supply from FCI though there is some solace in the form of price range from OMC's for ethanol made out of broken rice.

Now coming to performance: The standalone revenue from operations for the quarter ended 30th September 2023 was Rs.726 crores registering a growth of 13% as against Rs.644 Crores in the corresponding quarter of previous year. Earnings before depreciation interest and taxes for the quarter ended was Rs.131 Crores as against Rs.125 Crores in the corresponding quarter of previous year. Standalone profit after tax for the quarter was Rs.86 Crores as against Rs.85 Crores in the corresponding quarter of the previous year. The standalone revenue from operations for half-year ended 30th September 2023 was Rs.1424 Crores registering a growth of 4% as against 1363 Crores in the corresponding period of previous year. Earnings before depreciation interest and taxes and before exceptional items for the half year ended was Rs.116 Crores against Rs.136 Crores in the corresponding period of the previous year. Standalone profit after tax for the half year ended was 40 Crores against Rs.98 Crores in the corresponding period of the previous year. The profit after tax for the half year ended includes on an exceptional gain of NIL, actually there is no exceptional gain in the current year as against the Rs.44 Crores in the previous year on account of sale of properties relating to Puducherry and Pettavathalai factories in the corresponding period of previous year.

Sugar segment performance for the current quarter has been lower as compared to the corresponding quarter of the previous year mainly due to the export release order restrictions imposed by the government, however on the positive side this has been offset by increase in domestic volumes by around 0.37 lakh metric ton in Q2 2023-24 as against corresponding quarter of the previous year coupled with better domestic realizations.

Distillery segment has performed significantly better owning to increase volume from expansions and better realizations.

Base FRP for sugar season 2023-24 has been increased to 3150 per metric ton for a base recovery of 10.25%.

The standalone nutraceutical segment has registered a loss during the current quarter on account of the continuing certification issues in Europe.

Now I would request our CFO Mr. Venkateshwarlu to take you through the data points. Over to you Mr. Venkateshwarlu.

Y. Venkateshwarlu: Thank you Mr. Suresh and good afternoon to all participants. It is a great pleasure to be part of the analyst call and share the key information of the operational and financial performance of the company. I would like to share with you the key operating parameters of the segments.

Sugar operations: The crushing operations at Nellikuppam and Pugalur units have carried out for 80 days and 91 days respectively during this quarter. I would like to share the quantitative details as under. Crushing: Crushed about 8.54 lakh metric tons compared to the corresponding quarter of the previous year of 8.38 lakh metric tons. The recovery was 8.22% compared to the corresponding quarter of previous year 8.86%. We produced around 70,000 metric tons during this quarter against corresponding quarter of previous year 65,000 metric tons.

Cane cost: Overall cane landed cost is Rs.3155 per metric ton and last year corresponding previous period was Rs.3062 per metric ton. This is mainly on account FRP increase impact from Rs.2900 to Rs.3050.

Segment wise performance: Sugar segments: sales volume for the quarter two we did a sales volume of around 1.27 lakhs metric tons and the previous year was 1.17 lakhs metric tons. Selling price: Average selling price was about Rs.37.57 per kg against previous year quarter of about Rs.36per kg. We carried about 91000 metric tons of sugar closing stock.

Revenue from sugar: Quarter two revenue was Rs.507 Crores in current quarter against corresponding period of previous year of Rs.464 Crores registering a growth of 9% as a result of better sales realization and increase in domestic sales volume compared to last year. All FRPs paid on time and no cane overdue.

Cogen operations: As far as the cogen operations is concerned, we generated around 730 lakhs units in the current quarter against previous year quarter of 716 lakh units. We exported power about 362 lakhs units against previous year of 380 lakhs units. Average realization of power was Rs.4.59 per unit against previous year, which was Rs.4.46 per unit. Revenue for the quarter is 32 Crores against previous year quarter of 28 Crores. As far as the distillery operations is concerned, we sold 304 lakhs unit liters in the current quarter against previous year quarter of 231 lakhs. Out of 304 lakhs current quarter 144 lakhs liters ENA, 160 lakhs liters ethanol. As far as the price relation is concerned, for the current quarter we realized about Rs.60.61 per liter against previous year quarter realization of

Rs.58.38. In quarter two, the distillery revenues was 190 Crores compared to the previous year quarter of 141 Crores.

As far as the Nutra business is concerned, the turnover from Indian operations were about 8.81 Crores against 22.17 Crores in the previous year quarter. At the consolidate level, the Nutra business turnover was 57.77 Crores against corresponding previous year, which was 73.21 Crores.:

As far as the refinery business is concerned, operational revenue for the current quarter is 1296 Crores against previous year quarter of Rs.582 Crores. Profit before tax for the current quarter is Rs.13.59 Crores against previous year quarter loss of Rs.148 Crores. Refined sugar production for current quarter 2.44 lakh metric tons against previous year quarter 97000 metric tons. Refined sugar sales: For the current quarter 2.66 lakh metric tons against previous year quarters 1.48 lakhs metric tons. As far as Long term Loan is concerned, the current quarter outstanding is Rs.200 Crores the same as the previous year quarter. As far as the short-term loans is concerned, current quarter outstanding is around Rs.34 Crores against previous year quarter of Rs. 327 Crores.

Thanks for listening to us. Now I leave the floor open for questions.

Moderator: Thank you sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' o their touchtone phone. If you wish to remove yourself from the question queue, you may press'*' and '2'. Participants are requested to use handset while asking question. Ladies & gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mr. Sanjay Shah from KSA Shares & Securities Private Limited. Please go ahead, sir.

Sanjay Shah: Good afternoon gentlemen. Sir, I appreciate this quarter's performance as far as sugar is concerned where we have grown by 69% compared to last quarter. In Cogen we have not done well, Distillery we have degrown, nutraceutical EBITDA has shown a very good profitability, but top line has not grown. So it will be helpful to us if you clarify, how we are doing in the subsequent quarters, how we will do this year, and what about nutraceutical where the profit is so high and revenue has not grown. So what we are doing on that side.

Srikanthan: Morning Mr. Sanjay Shah, I am Srikanthan here. This is regarding Nutra- First let me answer your question on top line. The degrowth as compared to last year Q2 was mainly due to Europe certification where we were billing to Europe last year. Due to delisting of certifying body this year, we were not able to bill this quarter. We expect that to resume from Q4 as we are working with the new certifying bodies for that addition. On profitability, where you commented that profitability is better as compared to topline, part of the profitability was due to the reimbursement of insurance claim in Valensa, that is why the profitability is looking better, and in terms of future as I was sharing with you because of accreditation with the EU and revival of the US market we expect to do H2 much better than last year. Thank you.

Sanjay Shah: Helpful sir. Sir can you comment on distillery side, sugar refinery side. How we are doing now, how do you see that panning ahead.

S. Suresh: If you have any specific questions and that would be better.

Sanjay Shah: Yes, the specific question was regarding refinery that how do you see future ahead for refinery because we have been incurring huge losses on refinery side, nutraceutical not growing since last so many years. So what is the plan of the company, is there any timeline where we would like to continue this or may held up or may even shutdown, any probability on that side sir.

S. Suresh: Actually if you look at the refinery I think against the previous year period of quarter 2, current quarter our operating performance is good. We expect this operating performance to continue in Q3 and Q4 as well. This is an ongoing concern and we also mentioned in the earlier analyst calls, we are evaluating how do we augment the business in terms of certain capabilities, we already intimated to the investors also in the previous analyst calls. Operational performance has been an all time good and that should continue. Regarding strategic partnerships we have been communicating that will take some time. We have to find the right set of people which will add value to the business. So we would not be able to comment on the timeline at this moment. If it fructifies, obviously we will communicate.

Sanjay Shah: Okay sir. Thank you very much.

S. Suresh: Welcome.

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

Gautam Dedhia: Hi, firstly just because of the monsoon what do you expect crushing to be this year compared to last year?

S. Suresh: I think the overall crushing is expected to be almost in line with the previous year, that is what we are looking at. Maybe there could be a marginal increase in states like Tamil Nadu as compared to other places where the monsoon related challenges have been there. The acreages are intact, as we also see as we harvest, it is all about the yield happening in the field.

Gautam Dedhia: Okay, and on your branded business what would be the sugar sold in volume terms for the first half of this year and what would it have been last year first half?

S. Suresh: I will just give you the exact details. You want the retail volumes, isn't it?

Gautam Dedhia: Yes, the branded FMCG whatever volumes.

S. Suresh: We must have almost close to 73% on the branded side. So we were around 47000 tons of YTD of last year and we are around 66000, 67000 tons this year. On a quarter-on-quarter basis, from 23000 tons we are at now 33000 tons.

Gautam Dedhia: For this FMCG operations, we would have hired few people to build a FMCG team. So just to get a sense on a quarterly basis what would be the expenses we would be recording under employee expenses or other expenses, like a ballpark picture?

S. Suresh: See I think this is not a new one for FMCG, the retail sugar when you are selling that itself is on FMCG. Sugar is nothing but fast moving consumer good only. It is a daily consuming commodity that has been there for quite a while, nothing has coming new into the system.

Gautam Dedhia: Okay, and sir just one clarification, you said in the Nutra business we got some insurance claim. Can you quantify that amount.

Y. Venkateshwarlu: About 20 Crores we received, Gautam.

Gautam Dedhia: So, if I stripped that out our profit would have been 4 Crores and that kind of margin would be sustainable going forward.

Y. Venkateshwarlu: This 20 Crores not from the Indian operations, this is from US operations.

Gautam Dedhia: Okay, and just one more clarifications on the refinery business, the way you see things, right now you are very confident that in the second half we should be profitable.

S. Suresh: Yeah yeah , definitely.

Gautam Dedhia: Will it be better than the second half of last year like if we strip out the onetime expenses?

S. Suresh: It should be definitely.

Gautam Dedhia: Okay, thank you sir.

Moderator: Thank you. The next question is from the line of Mr. Vismay Bhatt from Shree Securities. Please go ahead, sir.

Vismay Bhatt: Can you hear me?

Moderator: Yes, Sir

Vismay Bhatt: My first question is, does the company have any plans to expand Northwest, I mean north wards so as to diversify our plant locations. Will we enter states like UP which has higher recovery rate?

S. Suresh: No, we do not have any plans beyond the south in terms of new factories.

Vismay Bhatt: How is the company enhancing distribution network and what are its projection, how many retail outlets will we be in say two years?

S. Suresh: Currently we are in roughly around a lakh outlets both direct and indirect put together. Definitely they should be growing at the rate of minimum of 30% year-on-year basis.

Vismay Bhatt: What is the revenue in Crores accruing out of the sale of value added sweeteners, how much is it poise to grow by, what is the SKU wise breakage. Can you tell like white label how much revenue, Amrit jaggery powder, sweet care, how much revenue does each SKU give and what is our revenue in Crores which is coming out of the value added sweetener.

S. Suresh: We can give you a total value added sweeteners revenue SKU wise and all would be too much of a task. Just as the other calls come in, we will just collate the data and share it with you.

Vismay Bhatt: Sir can you help us to understand what is the impact of the exports ban on the company, how much will it affect our topline and bottom line?

S. Suresh: If we have to take it as a last year equivalent volumes what we have exported, we did not have any opportunity to export now. So that is the exact quantum and value, nothing else because these all about an opportunity export and not a regular item. It was an opportunity last year, but opportunity is not there this year.

Vismay Bhatt: So what is our company's advertising expenditure in Crores and how much will it increase by and what are the projections for that?

S. Suresh: See actually as we go forward and enter into more and more of fast moving consumer good items beyond sugar, advertisement expenses will go up. Currently it will be somewhere around 15-16 Crores. These are all predominantly used for brand building, you must be seeing lot of ads in the South related to the products. New products getting into, this what you have asked about the value added sweeteners for that to be taken into the market, the ads have been there and lot of resources are being pumped into build the brand Parry, which is going to be the foundation for the growth of the FMCG segment and these expenses will go up in the future as more and more products join in the FMCG channel.

Vismay Bhatt: Sir, my last question is, we were thinking about entering the millets in Chennai right. We did the pilot survey, what was the result of that and are we going to venture into those millets?

S. Suresh: I think those things have given us the confidence that we can venture it into a commercial scale. We are evaluating the scale and the market in which we need to launch and the timeline of the launch, Maybe in another two to three months we should be having a fair idea about launch into the market.

Vismay Bhatt: Just I want to try to understand the salt market is mostly branded, but the sugar market is not so branded, is there any specific reason for that and how is the company going to capitalize on this opportunity of massive head growth?

S. Suresh: In fact that was the premise in which we did a branded sugar some time back. Four to five years back and even now, the branded sugar is hardly 8% to 10% in the overall sugar market. The reason, salt has been branded because the Tata's and other peoples or the Annapoorna's of the world have worked on it for the last two to three decades to build that brand into such a category. So that is what we have attempted in sugar and we have been really successful. The story of selling 600 tons per month in the retail channel five, six years back, today we are selling close to 12000 tons per month, that is the demonstration of the thing that the branded category is there to grow, that is a huge opportunity probably we have enough sugar to sell in the retail.

Vismay Bhatt: Sir how much does our company spend on slotting fees in supermarkets and to get it on the shelves?

S. Suresh: Sorry, can you please repeat?

Vismay Bhatt: Slotting fees means to put on the shelves and everything we pay the retail store some money.

S. Suresh: It varies from shop-to-shop like depending on the chain of stores, depending on what sort of visibility we want in the particular outlet. he terms of trade will vary from outlet-to-outlet and chain-to-chain.

Moderator: Thank you so much, sir. The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life AMC. Please go ahead, sir.

Naushad Chaudhary: Thanks for the opportunity. I hope my audio is fine. Firstly wanted to understand on our journey of branded sugar, just wanted you to explain us in terms of in next couple of years if this percentage of branded sugar business keeps improving. how this will change the overall economics of our business?

S. Suresh: Thanks for the question. If you look at the Indian sugar market, the average per capita consumption is somewhere around Rs.18 per kilo. The consumption pattern are totally different, that is one is at the home and another is at the on the go consumptions at hotels and restaurants, eating out and all those things. Predominantly, 65% of the sugar is getting sold in the institutional segments where the institutions prefer a quality is supplied by leading brands in the country which is sold in bulk, the balance 35% is the retail sugar, out of that universe of retail sugar, only around 8% to 10% is the branded category which are even lower in the earlier stages. Now the consumerism growing and consumers are becoming conscious about the hygiene, conscious about the quality of the sugar which is being supplied to them. There is more and more need for a branded sugar which is coming in, that is where the company has decided to launch brand Parry and then drive the retail consumer pack of the sugar. We have started with the base sugar and then we have sugar at every price point. For example, if you go to a supermarket there are unbranded sugar being sold in poly covers, we have got an equivalent price point level sugar also available, branded, trustworthy Parry sugar available for the customer and then go up in terms of the ladder we have got different price points, different quality of sugar for the respective consumer segments is available going up to brown sugar, Jaggery and then even for the health conscious people there is a Low GI sugar. So that is the way the brand is being built and from Parry, we are offering the Parry stands for the trust, Parry stands for quality, hygiene, reliability and that is what the customer is looking for and sugar being a daily consuming item and as Parry is able to give that one, that is a huge opportunity for this category to grow. We only hope and wish that enough sugar is being made available for being sold into the market.

Naushad Chaudhary: Interesting, actually I was trying to understand from a profitability point of view. So today if I calculate roughly on our EBIT, we get around Rs.2.5 to Rs.3 on our sugar business and as your branded business keeps growing, is there a potential to double your EBIT per kg or more than that because you have a high price range here and your raw material cost would not inch up much.

S. Suresh: Actually I will put it this way it will be too early to count the results on FMCG business, the branded product selling is a slow burn. It is going to give you very good returns in the long run, what we are building now is a brand Parry, the brand equity is getting built and consumers are getting into this the more and more in value added products proposition. Saliency in the sales goes up which is going to give increased realizations coming in. Maybe by next year, by this time we should be in a better position to talk about the EBIT and other things for the FMCG as a segment because by that time, if you see the Jaggery what we have launched is doing well, the brown sugar is there then there is a Low GI sugar all would have come to some different level. So it will be too early to talk about the profitability because this is the phase in which we are building the brand and establishing that in the minds of the consumers.

Naushad Chaudhary: Do not quantify it sir, but qualitatively do you think the potential is huge here once your expansion, cost in control is there, is there a huge potential to grow your EBITDA per kg here.

S. Suresh: Yes, definitely it is there, see compared to the unbranded sugar being sold in the market, there is at least a Re.1 net premium available to the branded sugar. So as you go up in the value chain in terms of brown sugar, Jaggery and then Low GI. The value propositions are higher because they are all targeted towards the health conscious customers and the customer base grows obviously the proportion of this value added category also grows and hence the profitability of this FMCG will automatically increase. There is a huge opportunity and Parry's geared up to cash on the opportunities. .

Naushad Chaudhary: One last then, I will come back in queue. Can you roughly quantify how much do we spend, are we spending annually on our distribution and brand?

S. Suresh: I said that we are on the sale value, we are spending around 3%.

Naushad Chaudhary: Okay that includes your expansion, your ad everything right?

S. Suresh: Yes.

Naushad Chaudhary: Okay I will come back in queue. Thank you so much.

Moderator: Thank you. The next question is from the line of Mr. Rajesh Majumdar from B&K Securities India Private Limited. Please go ahead, sir.

Rajesh Majumdar: Good afternoon sir and thanks for the opportunity. Sir I had a specific question on our sulfur free sugar, what is the capacity of sulfur less sugar we have in Haliyal and what it is operating at and at what realizations you are getting in the sulfur less sugar category?

S. Suresh: Sulfur free sugar is roughly around 1.5 lakh tons per annum equivalent is available.

Rajesh Majumdar: 1.5 lakh tons per annum?

S. Suresh: Yeah.

Rajesh Majumdar: And what is the capacity there and how much can it go to there?

S. Suresh: If it runs to the full capacity that is what we can do. Depending on the consumer demand we have, we will produce.

Rajesh Majumdar: That is the capacity and what are we doing right now in terms of the volumes?

S. Suresh: The plant is fully loaded and we are selling it to the retail as well as institutional customers.

Rajesh Majumdar: And what is the realization that we are getting versus the other products?

S. Suresh: Sorry, what is the question

Rajesh Majumdar: The realization in the sulfur free sugar.

S. Suresh: That is you talking about retail realization or what is it?

Rajesh Majumdar: I was asking, whether the sulfur free sugar is selling at a higher price than the normal branded sugar price.

S. Suresh: All the sugar are sulfur free. There are set of customers who prefer only sulfur free. So that is becoming the norm now a days.

Rajesh Majumdar: So my second question is on Kakinada what steps have we taken to ensure that the profitability is maintained and that the past are not repeated?

S. Suresh: See but for the unfortunate things which happened, the factory has been running very efficiently. In fact, off late we have even achieved world class efficiencies in terms of process as well and we have taken some measures, what are the areas which are directly under our influence we have worked upon. So we are very good in terms of our cost and also trying to lock our white premiums at the right times in the market that is what has given us the benefit of better profitability and that we will continue to do so in the quarters to come.

Rajesh Majumdar: So we are fairly certain that the kind of things you have seen in the past are not repeated or continue, is that a fair assumption to make?

S. Suresh: We should be able to maintain the profitability.

Rajesh Majumdar: Thank you so much.

Moderator: Thank you. The next question is from the line of Mr. Ritwik Seth from Oneup Financial Consultants Private Limited. Please go ahead, sir.

Ritwik Seth: Hi, good afternoon sir. Couple of questions. Firstly I understand our business is seasonal in nature, but if I look at the first half, our EBITDA has deteriorated because of increase in FRP and lower yield as well. So what do you expect for second half because generally it is the half where we cover up as crushing goes on. So what is the expectation for second half because exports will not be there as it looks like currently. So would we be able to cover up in second half or it will be softer than the last year, that is what I am trying to understand.

S. Suresh: As far as I see, there are only two things compared to the last year. exports are not there to that extent that opportunity is not available for the mill. We lost almost 70000 tons the exports in the H1 of last year. That is one, second is the FRP increased to that extent there is a hit for all the sugar mills but for that in terms of volumes you should be slightly better than the last year and accordingly the performance also in terms of operating parameters, you should be in line with the last year.

Ritwik Seth: So all the expenses should be flat and exports will not be there.

S. Suresh: No, I am saying the overall performance should be in line, that is what I am saying.

Ritwik Seth: Sir, my second question is on the FMCG, couple of participants have also asked. So would it be possible to share some update because in the annual report we have mentioned about getting into nutrition food. So if you can throw some light, how is it progressing, what kind of investments are we making, and if you can throw some color on that, that would be helpful.

S. Suresh: Thanks for the question. See this FMCG model on sugar has been rolled out five, six years back and it is doing well. As I have explained to you earlier, we have also gone up the pyramid in terms starting from the base sugar up to a lot of value added sweeteners have been launched in the market and they are already present in more than lakh outlets and this has given us the confidence and that the Parry brand is totally under leveraged and it has got a huge potential and as I have explained earlier it stands for a lot of things from a consumer point of view and we have taken some market trials, pilot trials in the other staples and other categories in terms of foods. So that is what we will be evaluating and then going into the market in the future. So maybe in the next quarter we will have some good idea about that and definitely we are also bullish about that opportunity before us and we will be doing our homework and then getting into the market based on our homework.

Ritwik Seth: And just a clarification in the opening remarks, you mentioned refinery debt is 235 Crores right which includes 200 Crores long-term and 35 Crores short-term.

S. Suresh: Yes.

Ritwik Seth: Okay great. Thank you sir, best wishes for the festive season. Happy Diwali to you all the best.

Moderator: Thank you. The next question is from the line of Ms. Falguni Dutta from Mansarovar Financial Services Private Limited. Please go ahead, madam.

Falguni Dutta: Good afternoon sir. I just had one question, what will be the cost of sugar for FY2024?

Y. Venkateshwarlu: Our cost of production as of now it will be around Rs.32000/mt to Rs.33000/mt.

Falguni Dutta: And this will be a before interest?

Y. Venkateshwarlu: Yes, when you say cost production it will be excluding interest.

Falguni Dutta: And including depreciation right?

Y. Venkateshwarlu: Yes.

Falguni Dutta: Along with it I just wanted to know given that the sugar prices have increased quite a bit now in the last, let us say a month or so, So do not we see a significant improvement in profitability of the sugar division as compared to last year?

S. Suresh: The sugar prices have gone up I think the FRPs have gone up prior to that already. So I think you may have to accordingly calculate.

Falguni Dutta: So you mean to say the increase is not just offsetting the FRP, is it?

S. Suresh: Normally when the sugar price increases, if you see historically as and when the FRP increases the market does not factor-in the increase in terms of the sugar prices. There is a lag of 12 to 14 months and the entire price increase is not passed on to the trade. That is why government steps in, in the form of giving better prices for the ethanol, which is being produced. In fact I have said in the opening remarks that we only hope that government will be favorably consider the increase in the ethanol prices. So that is the policy in the entire thing that the sugar prices are not going up in line with the increase in the cost of the input material.

Falguni Dutta: Thank you sir, that is all from my side.

Moderator: Thank you madam. The next question is from the line of Mr. Kashyap from Broadview Research Private Limited. Please go ahead, sir.

Kashyap: Hi, thanks for my question. Just I could not hear a couple of things, just to re-clarify if I recollect the borrowing in the last quarter, when we spoke during the last earnings call was 600 Crores short-term in the refinery and 200 Crores long-term. So it was infact the refinery debt was 800 Crores, so at this point in time the refinery long-term debt stands at 200 Crores and the short-term debt which was 600 Crores is now down to 35 Crores, is that the understanding?

S. Suresh: Yes, you are right.

Kashyap: You also mentioned that we expect the Q2-Q3 to be sustainable. So I am just trying to understand the profit that we made in this quarter, 38-39 Crores basically that is a function of, I mean, is that repeatable in the next couple of quarters?

S. Suresh: See, there is a reversal of MTM, beyond that also operations will be profitable.

Kashyap: I am sorry, please come again.

S. Suresh: See the quarter 2 also includes some reversal from the MTM line item, that means the business has done well in terms of the trade desk as well. So going forward the operational but for the onetime reversals which have happened, business will continue to be profitable.

Kashyap: In this year if I recollect, the refinery has to pay the long-term debts to the parent EID, so if we are profitable in the second quarter, third quarter will be as well. Should we expect the 200 Crores which is a loan given from EID to the refinery, whether refinery will pay to that EID start getting the money. So will the refinery be paying 100 Crores this year or later? I mean how should one think about it?

S. Suresh: I think, two more years are there. So 200 Crores is payable by 2025. Of course we will be continuously evaluating. Because now the sugar prices are going up in the market, we have to see the requirements of the business for buying the same amount of sugar which was 20 cents earlier, now sugar is 28 cents, then you need that much of extra. This one we have to see how the cash will be deployed first to ensure profitability of the business, then the surplus cash will be used for paying off the debts. We have time up to 2025, we will take a judicious call after this.

Kashyap: Understood. and just the debt that has gone down, basically it is, how one should think about it, it is basically a function about payables or it is just inventory, I mean, how should one think about it?

Y. Venkateshwarlu: It is a combination of couple of things, one is if you recollect in the June or somewhere our trade desk margin money got released that is the first thing. Second thing is also last quarter we had a good sales about 2.4 lakhs metric tons which we have sold it. So that is also got come cash into the system. Yes, what you said is correct because there is some payable also would have been there, all these got contributed to reduce the debt of external debt.

Kashyap: Should one think about that this because this is pretty dynamic so will this kind of a picture sustain or will the debt go up, I mean, how should one kind of just think about this business in terms of incremental borrowing?

S. Suresh: See the working capital requirements will be a function of the quantum of inventory we can maintain or we need to maintain. So depending on this, if there is going to be an opportunity in terms of lower raws available on a landed cost basis, business will go in for some higher level of working capital loan and then secure that one because ultimately the performance of the business is the first. One if working capital is going to help us in getting better spreads by locking the raws at a lower price we will go ahead and do so. Otherwise we'll remain lean on the inventory.

Kashyap: And lastly on this Nutra thing, you said 20 Crores was the reimbursement which came in which is one time in nature and if I look at difference between standalone PBIT and console PBIT, it is a 25-26 Crores profit which basically is for Valensa. So is this 5-6 Crores number which is net off this 20 Crores one time sustainable on a going forward basis at Valensa?

Srikanthan: Yes, Mr. Kashyap, incremental 5-6 Crores came from operational improvements in Valensa and we were able to buy some of the raw materials at a competitive rate. So it should be sustainable.

Kashyap: It should be sustainable great, and finally if I may just slip in one last question, which is about the branded sugar. Could you just maybe pull out what is the contribution, if we sold 127,000 tons of sugar, how much is the total branded sugar sales within this in terms of percentage of sales volume and how should one think about it, what was it maybe a year or two years back and how should one think about this progressively maybe 2-3 years out in your view?

S. Suresh: See the branded sugar, I will give you the statistics in terms of what is the percentage and what is it going to be going forward. If I can say roughly out of the 3.5 or 3.6 lakh tons of sugar what we are going to sell, close to around 1.4 lakh tons will be on the branded sugar and if I have to equate it five years back we were selling 10000 tons on a base of around 4 lakh tons.

Kashyap: So almost 40% would be branded sugar.

S. Suresh: Correct.

Kashyap: And that incrementally over the next 5 years or next 3 years can this be expected to be significantly high like 2/3rd or more, I mean, where do you think we can take this up to in your view?

S. Suresh: See the opportunity exists, we have to see how much of sugar will be available to sell. We have to look at other ways and means of securing the sugar that is how the branded retail will grow of course still we have an untapped opportunity. What we are selling into trade is an opportunity for us to get converted into branded sales. First we will exhaust that then we will look at that.

Kashyap: And this 1.4 Lakh tonnes, which you sell for instance whatever that if 35%- 40% increase this quarter what should be the salience, which is 37.5, is a blended NSR, how much higher would be the NSR of this branded sugar, would it be 39, would it be 40, would it be 38.5, what is the delta and how meaningfully can the delta go up over the next few years.

S. Suresh: Yes, see it depends, like this for example, if it is a base sugar, the realization will be somewhere around Rs.40-Rs.45 and for the other sugars it will be somewhere around Rs.60 or so for the refined sugars and the super refined sugars that will be somewhere around 65 that is the realization what the company will be getting in. Of course for the high value added products, there are associated cost as well, but definitely the gross margins of these value added sweeteners are definitely better than the base sugar that is what is currently.

Kashyap: Currently that spread is not visible in the profitability. So I am just presuming that the delta right now is very minimal. So just wanted to understand what is that delta right now is it Re.1 higher, Rs.2 higher at the total.

S. Suresh: That is somewhere around Re.1 to Rs.2 because most of the things is coming to the base sugar.

Kashyap: And how do you think about this delta in terms of expansion of this delta over the next few years.

S. Suresh: The delta will improve based on the value added sweeteners saliency in the overall portfolio, that is where the new sugars like your brown sugar, Amrit, then you have the Jaggery or low GI, those are the ones which are going to improve the delta, because consumers are looking for that type of health products in sugar. They want to use sugar, but they want to use healthy sugars as well, better sugars as well, consumers who use normal sugar and there are consumers who are willing to pay that extra premium for using the better sugars. So we have got a portfolio of products in the better sugar category in the form of Amrit, brown sugar, then Jaggery, then low GI, etc., and super fine sugar and these are the ones which are going to grow as we grow in terms of the number of outlets. Expansion of these outlets will help us to take these value added products into those new outlets as well, thereby contributing to the growth in top line as well as profitability.

Kashyap: Understood, okay sir, thank you so much and wish the team best of luck.

S. Suresh: Thankyou, Mr Kashyap- Thankyou

Moderator: Thank you. The next question is from the line of Mr. Gautam from Nalanda Securities Private Limited. Please go ahead, sir.

Gautam: Thanks for the follow-up. Just a long-term picture question. So based on our current crushing and if we assume we produce b-heavy molasses and we just consume captive molasses what is the potential capacity we can further add post our expansion plans that will be completed in FY2025?

S. Suresh: So overall ENA and ethanol put together somewhere around 21 crores liters will be the thing, which will be done in 2024-2025.

Gautam: No, but beyond that based on our crushing capacity, if you were just to consume captive molasses what would be the potential? So this 21 can go to how much like based on our crushing?

S. Suresh: No, captive molasses if you look at, Karnataka expansion what we have done in Haliyal has taken into account based upon the captive molasses generation. Accordingly the capacities have been defined. So there is no further surplus available there. As far as Tamil Nadu is concerned, there is expansion in Nellikuppam and other places. This is only helping us to reduce the (bought out) molasses by 50%. There will not be any additional molasses available to improve the capacity.

Gautam: Thank you sir.

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

Karan Mehta: Thank you sir for the opportunity. I just have a couple of questions, firstly on the refinery business though we are the most efficient in this business, but still we are not making much money there and so what are our weaknesses or shortcomings in this business and how can we overcome these. Though the investor says this, it is not right when you read it as a sentence to have better profitability.

S. Suresh: See as I was explaining in the startup, the biggest driver of this business profitability is the white premiums or the spreads which are available for the business. While the raw sugar and white sugar prices are increased also the freight rates and other things also have increased. Hence the net spread available to the business for making disproportionate profits is very much limited. The efficiencies and operational improvements have helped this business to stay offload even when the spreads were the lowest. We have never shutdown our refinery for want of spreads, that means our cost which was used to be almost close to $70-$80 has come down significantly in order to help us to operate even during lower spreads. So the time when the spread is going to improve in the international market, that is going to add to the profitability. So what we are working on currently and we have built the efficiency is in terms of whatever under our influence we work. That is how we have become the world class refinery in terms of our operating cost. We are now hoping that the markets will improve, the spreads will improve, so that we make better margins and better profits.

Karan Mehta: And secondly when we compare our sugar, Cogen and Distillery business ex of refinery with our competitors we find that our margins are a bit lower, so what are the reasons for the same and what steps are we taking to have better margins going ahead?

S. Suresh: Which are the competitors you have compared I do not know.

Karan Mehta: So specifically it is Bannari Amman Sugar but even some other competitors have slightly have got better margins than us.

S. Suresh: No, actually see we continuously focus on our cost because there is recovery which is going to make the difference in any sugar factory. A factory in the coastal has got a less than 9% recovery compared to a factory which is in the interior which is having 11% recovery in the same state of Tamil Nadu. So there is a crushing capacity, there is a cane availability, then there is going to be the recovery. All these factors will decide the conversion cost or the total cost of sugar for any particular sugar mill. I think it is important to look at it from that perspective given the fact that we have certain command area and certain location and the recoveries we will try to optimize and bring down the cost and operate at the most efficient manner possible.

Karan Mehta: So H2 seems to be better for all these three divisions. So that it would be in line with like last year.

S. Suresh: Yes, it should be and you have to discount the exports and related thing which are there last year and which is not in the current year.

Karan Mehta: And sir just following up on refinery like you have brought in several cost efficiency measures and that is very great, but do we expect spreads to go even further down and what would be our profitability in that scenario?

S.Suresh: The spreads in my assessment have already touched the bottom some maybe few months back itself or last year or so. I do not expect it to go down to that level. Once spreads narrow down to a level in which you cannot even be breakeven at the variable cost level, then all the refineries will shut down, which itself will take up the white premium to the next level and the spreads should bounce back. That is how it will operate. So that others operating at the variable cost level automatically will supply refined sugar, the refined sugar market in the world maybe around some 20-25 million tons compared to the total figure of 180 million tons. So if you have the all the refiners decide to shut down, automatically all premiums will go up. So that is how the demand supply will work.

Karan Mehta: : Fine, thank you sir for all the clarification.

Moderator: Thank you. The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life AMC. Please go ahead, sir.

Naushad Chaudhary: Thanks for the opportunity again. On the branded business, are there any entry barriers and if you can explain what all challenges we have faced in last five years to build this business, it will help us to understand the criticality of this business.

S. Suresh: I think I explained this also earlier. The important thing in any branded business is about first your product needs, you should have a good brand, which we have already, excellent brand Parry, you need to build the brand and make it visible and in the minds of the consumers that is the important thing as we have been doing. To support that, we need to have a range of products, which the brand has got a portfolio to offer to the consumers. We have done that as well and once the products are available we should go and reach the consumers. That means we need to increase the number of outlets in which we are present. So we were around some 6000-7000 outlets five years back. Now we are close to around one lakh plus outlets. So we need to sustain this, we need to continue to build the brand, continue to offer the quality products to the consumers, and increase the reach in the future timeframe in terms of increasing the number of outlets in which we are present. That should help us to grow the business further, that is how it is. The opportunity is the branded sugar segment category which is relatively low compared to other FMCG products, Hence there is an opportunity for the business.

Naushad Chaudhary: Understood. From an operating leverage point of view, what do you think at what scale the branded business should start contributing meaningfully to your EBITDA.

S. Suresh: Once the value added sweeteners should touch almost 25%-30% of the overall sale, automatically the business will go to the different things.

Naushad Chaudhary: And what is that number today?

S. Suresh: Today it is around 5% value added sweeteners.

Naushad Chaudhary: And what is your CapEx plan for 2024 and after that?

S. Suresh: Except for the replacement CapEx we do not envisage any major CapEx plan for the base business.

Y. Venkateshwarlu: Except the expansion which is underway. So there is no other major CapEx plan for the future years except we will have the maintenance CapEx which will be there year-on-year basis.

Naushad Chaudhary: And I hope there is no cap so if at all you want you can shift your entire sugar to a branded business or is there any cap that you have to sell it to XYZ channel.

S. Suresh: No currently we are present in the trade channel, institutional channel and retail channel. So as I explained earlier, the first shift will be to reduce the trade and then convert them as retail channel after that the next level will be, if the retail is going to be that much profitable, the relatively lower profitable institutional customers will be and we may have to log off and then we may have to start building the retail system.

Naushad Chaudhary: Understood. Thank you so much, and all the best for the future sir.

Moderator: Thank you. The next question is from the line of Mr. Aman Shah from Jeetay Investments Private Limited. Please go ahead, sir.

Aman Shah: Hi, thank you for taking my question. Just I had one question on our sugar business. When we see our profitability for H1 compared to our competitor Bannari Amman mainly which is in Karnataka, Tamil Nadu. In H1 we see a widely different profitability. Can you help us understand what are the drivers for this?

S. Suresh: I think we have already answered this. We are presently in three states. On these three states our recovery range anywhere from 8.5% to 12.5%. It is a spectrum of recovery across our plants so the commentarial effect of this will have an impact on the profitability. So it will not be appropriate to compare one particular mill with one set of six/seven mills combined together with the range of recovery.

Aman Shah: The only reason was like for full year of last year FY2023, recovery was higher than Bannari Amman. So we just thought like can there be any other thing on this?

S. Suresh: I am not able to get your question. Can you please repeat?

Aman Shah: So recovery for last year for us was somewhere around 10.6% compared to what Bannari Amman was having is 9.5%.

S. Suresh: We have got so many establishments', integrated distilleries and recovery is one component of that. I do not know how many distilleries Bannari has got along with the sugar plant. So there is going to be a product of the recovered sugar getting converted as molasses, then we have storages formula so we have got investment from distilleries produce alcohol there is operating cost for that there is a fixed cost for that there are so many things. Recovery may be taking as one single factor in comparison may not be appropriate in our view point.

Aman Shah: Sir, then another is on the retail part, you have given a lot of clarifications on the work that we are doing just on this the investment that right now are going into building the value added product. Is it safe to say like right now we will be in a slow burn mode on EBIT basis for the retail segment like some losses would be happening right now or breakeven is happening if you can guide on the profitability.

S. Suresh: When I said, the slow burn happening, means if it takes time for it to build, that is what I said as slow burn. Whatever we spend on the advertisements, these are all for building the brand. They should be treated as investments not as expenditures and losses . That is what I call as a slow burn. We have to build the brand, we have to increase the number of outlets, we have to increase our reach, establish a portfolio of products. This takes time, we need patience for building that. For selling that 144000 tons in trade we do not need that type of setup. I can just sell it as it is, but for the business to be sustained over a longer period into decades, the best thing is to build it properly, build it in a slow steady model, and then scale it up, that is what we are doing.

Aman Shah: So we should start seeing a good contribution to profitability from four to six quarters you feel in this segment?

S. Suresh: Definitely.

Aman Shah: And on refinery just we think the outlook will be better from now, the Q2 profitability will be maintained, but what were the white premiums and for how much period would we have locked these premiums?

S. Suresh: See as of now for running the refinery for this financial year we already locked our premiums that is why I have been saying that we should be running better in the H2. For the next financial year we are waiting for the right opportunities in the market to lock our premiums.

Aman Shah: Okay, great sir, thank you so much.

Moderator: Thank you. In the interest of time that would be the last question. I would now like to hand the conference over to the management for the closing comments.

S. Suresh: Thank you and I would like to thank all the participants for having taken their time out and joining us for this call. Hoping to meet you in the next call in the 3 months from now. Thank you, all the very best to you, and Happy Diwali wishes to everyone.

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