



Dhampur Sugar Mills Limited

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Q4 & FY2009 Earnings Conference Call Transcript

November 10, 2009

Moderator

Ladies and gentlemen good afternoon and welcome to Dhampur Sugar Mills Limited Q4 & FY2009 earnings conference call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Ishan Selarka of Citigate Dewe Rogerson. Thank you. Over to you sir.

Ishan Selarka

Thank you Melissa. Good evening all and welcome to Dhampur Sugar Mills Q4 & FY2009 earnings conference call. To discuss more about the results, we have with us Mr. Gaurav Goel and Mr. Gautam Goel, Managing Directors and Mr. Arhant Jain, Executive President Finance and Company Secretary.

We will commence the conference call with opening remarks from Mr. Gautam and Gaurav Goel which will be followed by an interactive question and answer session. You may want to know that some of the statements discussed in this conference call maybe forward looking and a note to that effect is stated in the release sent out to you earlier. I would now like to invite Mr. Gautam Goel to share his perspectives

with regards to the Company's performance during the quarter and year ended September 30th, 2009 and the opportunities going forward. Over to you sir.

Gautam Goel

Good evening and a very warm welcome to all at Dhampur Q4 & FY2009 earnings conference call. I would like to begin by sharing my perspectives on the sugar sector while discussing the Company's operational performance following which Mr. Gaurav Goel will take you through the financial highlights of the Company for the quarter and the year ended FY2009.

During the sugar season 2008-2009 the country witnessed a radical fall in sugar production which fell from 26.3 million tons to around 14.5 million tons. The key reason attributed towards this fall was the diversion of cane areas into other remunerative crops, adverse climatic conditions impacting the yield of sugarcane and lower recovery rates coupled with a higher diversion into the alternate sectors like jaggery and khandsari. However, we expect availability of cane in the ensuing season to improve which should result in a higher sugar production. Though, it is still expected to be lower than India's expected consumption of over 23 million tons. The sugar sector is also facing a demand-supply mismatch globally thereby resulting in higher international sugar prices. Consequent to these reasons sugar realizations in the domestic markets has mirrored international sugar realizations and are expected to remain firm going forward. Despite this, Dhampur has been able to have one of the lowest drops in crushing compared to the previous year's level.

Consequent to lower production, the Government of India during the year allowed duty free import of raw sugar without any re-export obligation until December 2010 to meet the shortfall in demand. We anticipated a profitable opportunity in importing raw sugar and refining it in our refineries as we have the capacity to refine about 1,700 MT of raw sugar per day in the off season also.

During the quarter, Dhampur became the first sugar Company in Uttar Pradesh to complete installation of coal feeding and handling systems at Dhampur and Asmoli units. This installation would enable us to process raw sugar even during the off season at our Asmoli unit, thus limiting our dependence on bagasse. This will also enable us to export power through the power trading mechanism from our Dhampur and Asmoli units thereby improving our capacity utilization and profitability from these units.

To give you a broad outlook, the expected crushing date is around the 20th of November 2009; cane availability should be the same as last year or marginally higher. Expected recovery rates should be the same as last year or marginally higher.

Coming to our operational highlights, we believe that we have been able to deliver a sustained operating performance. The sugar division registered healthy earnings as a result of improved sugar realizations. Average realizations during the quarter were higher at Rs. 27.14 per kg compared to Rs. 16.86 per kg in the corresponding period last year. For FY2009 sugar realizations stood at Rs. 22.23 per kg compared to Rs. 15.47 per kg in FY2008. The Company in FY2009 crushed 25.47 lac tons of cane compared to 36.17 lac tons of cane in the previous year. Sugar recoveries stood lower for the group given the adverse climatic conditions. However, the locations of our plant, ability and efficiency of our mills has enabled us to post a relative better recovery rate compared to the peers in our region for the sugar season 2008-2009. These factors resulted in a total production of 2.37 lac tons of sugar in the current year compared to 3.61 lac tons in FY2008.

Lower cane availability also affected our power and chemical/ethanol business. The performance in our power division remains subdued due to lower bagasse availability. During the year, Dhampur generated 277.25 million units of power and exported 165.58 million units compared to 177.72 million units in FY2008. Our average realization for the quarter stood at Rs. 4.20 per unit as compared to Rs. 2.98 per

unit in Q4 FY2008. However for the year, our average realizations were at Rs. 3.25 per unit compared to Rs. 2.80 per unit in FY2008. The state grid had increased the price per unit of power from Rs. 3 to Rs. 4 from March 1, 2009 until May 2009. The tariff for co-generated power has also increased to Rs. 4 per unit effective 1st October 2009. This coupled with multi-fuel capabilities and power trading opportunity should have a positive impact on our power business in the coming years.

Revenues in chemical and ethanol divisions remained subdued during the quarter as a result of high raw material prices without consequent increase in realizations of chemical and rectified spirit production during the year has also decreased.

To end, we are enthused by a strong performance and are confident of our ability to perform well by going forward. We continue to remain one of the most efficient and largest integrated sugar manufacturers in the country and believe that we are the best place to ride varied sugar cycles and deliver sustainable results going forward. With that I conclude the sector and operational overview.

I would now like to request Mr. Gaurav Goel to take you all through the financial performance of the Company. Thank you.

Gaurav Goel

Thank you Gautam. Let me begin by stating that we are happy to report a healthy operational and financial progress. Our focus to implement multi faceted business operations has enabled us to report a strong performance. The overall growth is in line with our long established strategy to focus on generating revenues from sugar and its byproducts and we expect to give sustainable financial results going forward.

Our net revenues for the quarter stood at Rs. 2.93 billion for the quarter under review. For the year net revenues were higher by 36.5% at Rs. 9.48 billion compared to Rs. 6.94 billion in the corresponding period last year. This was primarily owing to improved sugar

realizations. EBITDA for the quarter was higher at Rs. 438.8 million compared to Rs. 316.5 million in Q4 FY2008. During the year, EBITDA increased by 64.36% to Rs. 2.04 billion compared to Rs. 1.24 billion in the corresponding period last year. We believe improvement in our performance is due to favorable sugar pricing and positive contribution from our power business. I am pleased to inform that the Board of Directors has recommended a dividend of 15% on the share capital for FY2009. Our interest cost has decreased to Rs. 176.83 in the quarter under review due to repayment of high cost loans and lower working capital borrowings. Profit after tax during the quarter, increased to Rs. 138.5 million compared to Rs. 75.9 million in the corresponding period last year. Profit after tax for the year was higher at Rs. 561.8 million compared to Rs. 36 million last year.

As far as our balance sheet is concerned, our term debt as of 30th September 2009 stood at Rs. 5.91 billion. As mentioned in our earlier conference calls, we foresee a decrease in interest outflow going forward by swapping our high cost loans with sugar development fund loans, repayment and prepayment of term loans.

Let me now take you through business wise performance. Sugar division registered healthy sales volumes on the back of higher sugar inventories of sugar season 2008-2009 at better realizations. To add to that we have tied-up for 2.5 lac tons of imported raw sugar till 30th September 2009 out of which 18,000 tons was reprocessed upto September 2009. The total inventories as of 30th September 2009 stood at 52,000 tons. This segment during the year contributed to 83.05% of total revenues at Rs. 9.36 billion compared to 71% at Rs. 5.9 billion in the same period last year. For Q4 FY2009, this division contributed 96.03% of total revenues at Rs. 2.76 billion compared to 84.92% in FY2008. I would like to add here that out of the total tie-up of raw sugar of 2.5 lac tons up to September 2009, we have sold 60,000 tons of imported raw sugar on high seas in October 2009. Therefore, we currently have a stock of 1.74 lac tons of raw sugar

which will be reprocessed and sold in FY 2009-10. Overall we are confident that this conversion will be profitable given our import cost vis-à-vis the current sugar prices. The sugar business contributed to 71.49% of overall PBIT for the year. Overall, though there is uncertainty on the cane availability and pricing for this coming season and production cost being the key challenge, we believe firm sugar prices because of lower cane availability are expected to offset this uncertainty.

Our power business continues to deliver satisfactory contribution and has complemented positively to our earnings performance. Contribution from the power business stood at 13.8% of total revenues at Rs. 1.55 billion for FY2009 as compared to Rs. 1.28 billion in the corresponding period last year. PBIT contribution for the year from this division stood at 27.17% at Rs. 413.44 million compared to Rs. 411.88 million last year. We remain positive on this segment as installation of coal feeding and handling systems will help us deliver healthy earnings going forward.

Our chemical/ethanol business continues to remain under pressure and witnessed subdued growth on the back of increase in prices of raw material without corresponding increase in prices. Revenues from this business for the year stood at Rs. 355 million thus contributing 3.15% of total revenue. PBIT for the year stood at Rs. 20.32 million from this business. We expect continued pressure on this business even next year. These on a broad level are our financial numbers. Thank you once again for joining us on this conference call. We will be happy to answer any question that you may have.

Moderator

Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from Mr. Ami Shah from LKP Shares. Please go ahead.

Ami Shah

We had already contracted 153,000 tons till June 2009 and currently

we have a total contract of 250,000 tons. Am I right on that?

Gaurav Goel

Yes. 2.5 lacs were at the end of September 2009. As I was saying in the call, that we have sold a part of that on high seas last month. So, as on October 1, 2009, we have 1.74 lac tons of raw sugar excluding what we have reprocessed.

Ami Shah

you give me the cost of contract?

Gaurav Goel

As of now we do not want to talk about those numbers, but what I can say for sure that it is substantially lower than the current world market prices as these were done earlier in the year. So our average cost for this is extremely good right now

Ami Shah

But in the last conference call, the 153,000 tons that we had contracted was at USD 360 per ton. So, the balance that we have, would be in and around that price?

Gautam Goel

No. See basically, we have contracted for additional 90,000 tons out of which we sold 60,000 tons. Now you can work on the math. I do not think it will be prudent for us to give the exact average cost of our raw sugar at this point of time.

Ami Shah

At what rate have we booked our total inventory of 52,000 tons?

Gaurav Goel

That is booked at Rs. 20 per kilogram.

Ami Shah

What is the cash that we have on the books right now?

Gaurav Goel

There is not substantial cash on the balance sheet. The cash was basically used to supplement our working capital for the year and we

expect to utilize our cash that we will get in this coming year for our working capital and repayment of our term loans. However, our cash and bank balance as of 30th of September is Rs. 37 crore.

Ami Shah

Could you just elaborate on your installation of coal feeding and handling system and help me understand it better.

Gaurav Goel

Basically as we mentioned during our previous concalls, investment in co-generation and power has been substantially high. Though we had installed multi-fuel boilers, what we had not done was we had not installed the coal handling and coal feeding system in those boilers even though we were capable of using coal. Now on the basis of this opportunity for raw sugar refining in our refineries and of course sort of opportunities in power trading coming up apart from shortage of bagasse; we felt it was prudent to add coal handling system and we were able to do it successfully. This will give us the opportunity to continue to toll raw sugar without having to buy expensive bagasse. In fact, it gives us the opportunity to sell bagasse, if the opportunity cost of that is higher than the replacement cost of coal. Simultaneously, we can also utilize our power plant for 300 days to 330 days because of the power trading mechanisms which the Government of UP seems to be inclined to let us do now.

Moderator

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

Bhavin Chheda

How much is the working capital debt?

Gaurav Goel

Our working capital debt is Rs. 110 crore

Bhavin Chheda

What is your crushing target for the sugar season 2009-2010?

Gaurav Goel Depending on the current situation, we do believe it could be 5% to 10% higher than last year. Last year, we crushed about 25.47 lac tons. So this year, it could be in the region of about 28 lac tons or something. However its just the beginning.

Bhavin Chheda Do you expect the recovery rate to improve or remain at 9.3%?

Gaurav Goel We do believe and hope that the recovery rate should improve; but again as I said it too early to say. Let us see what the cane crop and the god has in store for us.

Bhavin Chheda Does your sugar sales volume of 3.73 lac tons include the raw sugar which you had imported and refined?

Gaurav Goel Yes. That is a total, but as I was saying that a very small portion i.e. 11,000 tons out of the 18,000 tons reprocessed was sold in the last year.

Bhavin Chheda As you have also mentioned that 250,000 tons import of raw sugar figure is not relevant because you are now mentioning 174,000 of raw which will be processed in 2009-2010, right?

Gaurav Goel See, 2.5 lac tons is what we imported. Out of that, 60,000 tons was sold in high seas in the current quarter i.e. Q1 FY2010 and 11,000 tons was sold in the last financial year. So the balance is available for this year.

Bhavin Chheda So 1.74 lac raw plus 2.5 lac cane sugar numbers will be captured in the sugar season 2009/2010?

Gaurav Goel Absolutely right.

Bhavin Chheda In terms of the overall industry, how much production do you expect in the next year. Can you give details of UP and Maharashtra separately?

Gautam Goel See, roughly we do believe the industry sugar production should be in the region of 15.5-16 million tons. This is what the initial estimates are. UP, we believe to be again about 10% higher which could be about 4.5 million tonnes instead of 4.1 million tonnes which was there last year. Maharashtra too could be about 5% to 10% higher. So it could be in the region of 5 million tonnes instead of 4.6 million tonnes which was there in the last year.

Bhavin Chheda Just to confirm; you said that the grid has allowed to charge up to Rs. 4 per unit. Is that right?

Gaurav Goel Well what happened in the month from March to May 2009 was that, maybe because of elections or some reasons for additional power requirement, the UP government gave a higher rate of Rs. 4 per unit since bagasse prices were high. Subsequently the tariff was revised back to Rs. 3 per unit. Now there has been a tariff revision again in UP for co-generated power and it has gone up from Rs. 3 to about Rs. 4 per unit. This rate is effective from 1st October 2009.

Bhavin Chheda The reason I am saying this is because your Q4 realizations were at Rs. 4.2 per unit.

Gaurav Goel That was because we got open access permission, so some amount of power was sold through open access for that quarter.

Bhavin Chheda So was this sold outside the grid?

Gaurav Goel Yes absolutely.

Bhavin Chheda What is the policy currently for next year, What amount has to be sold compulsorily to the grid and how much is the open access?

Gaurav Goel As what the UP government has sort of made, given a policy statements, all power generated during the season has to be sold to the grid and the tariff of which has been revised upward by 33%.

Bhavin Chheda So that is around Rs. 4 per unit.

Gaurav Goel For the off-season, what they have said is that if you use alternate fuel other than bagasse then you can sell 50% of that outside of grid and the other 50% you can sell to the grid. However, the grid has a first right of purchase depending on what the cost of that would be. UP ERC is supposed to work out the cost of that for the power plant for the co-generators. If UP PCL is interested in buying power at that cost they have the first right, otherwise of course you can sell it out to the open access merchants.

Bhavin Chheda What was your average cane procurement cost for sugar season 2008-2009?

Gautam Goel Rs. 160 per quintal was the total cost with all expenses.

Bhavin Chheda What are your expectations for 2009-2010?

Gautam Goel It is still very early days. Talks with the farmers are still on. The SAP for the year has been fixed at Rs. 165 and FRP is at Rs. 130. Now let US see what the final numbers come out to.

Bhavin Chheda And the policy of free sale sugar reimbursement is still not clear?

Gaurav Goel That is very clear. The government has come out with an FRP price which theoretically today becomes, as per our understanding, a statutory price which factories can pay and beyond that depending upon what they perceive in their long term interest, they are free to decide to pay a higher price.

Bhavin Chheda So companies are free to decide to pay a higher price?

Gaurav Goel We always have that option.

Bhavin Chheda There were some statements that the differential between SAP and FRP will be only paid for the levy sugar.

Gautam Goel See this is the first year of FRP and unfortunately this is a year where sugarcane is at a premium, so there are a lot of confusions floating around. But levy price will be calculated on the basis of FRP and that is the minimum price that the sugar factories are supposed to pay.

Bhavin Chheda Do you think that most of the companies in UP and other states will make a provisioning in the accounts on FRP basis?

Gautam Goel No. I think everybody will make provisions as per the actual cane price they pay. It will be higher than the FRP.

Gaurav Goel See, I can talk about Dhampur. We will account for cane on actual cane price paid. So whether it is Rs. 130 or Rs. 165 or higher than that, it will be on actual cane price paid.

Moderator Thank you Mr. Chheda. The next question is from the line of Ashish Gupta from Kotak Securities. Please go ahead.

Ashish Gupta Till date, you have processed around 18,000 tons of raws. I am eager to know as to how many units of power sold on a merchant basis from these 18,000 raw sugar processing?

Gautam Goel We have done our merchant power sale only in the month of October.

Gaurav Goel Though we got it in the last 3 or 4 days of September, we did not reprocess raw sugar. There has been no relation between merchant power and raw sugar reprocessing in FY2008 and FY2009.

Ashish Gupta Yes I understand that but in the month of October, I think you had processed around 12,000 to 15,000 tons of raw sugar.

Gaurav Goel We will give you all those numbers in the January conference call.

Ashish Gupta I think these were processed using coal?

Gaurav Goel Absolutely.

Ashish Gupta Could you give me some sort of cost dynamics as to what was the costing and what kind of realizations you are getting from the grid or maybe from the outside grid from these processed raw sugars?

Gautam Goel See, I think those are the numbers that will be reflected and you will see them when we come out with the first quarter results. But realization of sugar and the market price of sugar would be different by that time and ours will not be very different from that.

See on the power front, we all have supplied power last month out of coal under open access for which we have got a higher realization than the state's price right now for power. There was a positive contribution on the power side out of coal last month.

Ashish Gupta

How much running days of power can we expect in the season?

Gaurav Goel

See we all are expecting our cane crush to last for anywhere in the range of 140 to 150 days and our power plant will run throughout that time.

Ashish Gupta

How many units are you likely to sell in the season?

Gaurav Goel

See we have a capability to export 80 MWs of power during the season time and we expect to supply almost the total amount during this coming season.

Ashish Gupta

How about the off-season as you have the raw sugar in your hand right now. So that will take another 50 to 70 days, shall we expect another sale of power?

Gautam Goel

See, off season will depend on two things; one is of course the unit in Asmoli where we will refine our raw sugar. Over there, power will definitely be sold. Also in our Dhampur unit where we also have this multi-fuel capability, we have the coal facility depending upon the power tariff and price of coal. Overall, if there is a positive value addition, we will max power generating capacity in both these units.

Ashish Gupta

There are huge dynamics involved in this, especially in the power front. Though, we know that the story is a bit clear in the sugar segment as you have the crushing capacity and raw sugar for

reprocessing in front of you. However, on the power front, I think the revenue could be on a very high side in this crushing season especially for the full year. So I just want to get more clarity on that part?

Gautam Goel

We have one unit in Asmoli and 2 units in Dhampur. The Dhampur units can generate about 55 to 60 MWs of power through bagasse and we can generate 30 MWs of power through coal as well. So those are the sort of situations that we have. Now of course, it will depend upon the open access permissions, open access tariff and the price at which we can produce the power. Now, after evaluating these three things, if there is a positive value addition, you take the auxiliary consumption, you take refining consumption out we could easily export about 70 odd MWs from these 3 units in the off season.

Gaurav Goel

We have a beautiful opportunity that we have the capability and we have already got our plants in operation. So if there is a positive arbitrage on that then we will be exporting power and as said earlier we may do it even for the whole of the season. So there is this opportunity in front of us. But we will get clarity on this only closer to time. Depending on that, we all will know as to how many days we would sell power for in the off-season.

Ashish Gupta

Could you also give me some clarity on the distillery segment part. We have seen that in the last two quarters your distillery segment business has been witnessing very bad realizations and this time we have seen an EBIT loss as well. So what is your outlook in this segment?

Gaurav Goel

This is a segment which seems to be under pressure at this point of time, but that is the whole beauty of the integration model. At a time when sugar does well, your alcohol business surely comes under pressure due to higher feed stock prices and depending on that we

have the opportunity whether to sell our molasses in the open market or to make alcohol or chemicals out of that. So that is again an opportunity which we will see vis-à-vis feed stock and the final sale prices of the products and then take a call on that accordingly. But yes, that business is expected to make lower money than what it made last to last year.

Ashish Gupta

Could you give me the breakup on your long term debt of around Rs. 591 crore. Also, if you could give me the rate of interest?

Arhant Jain

We have got Rs. 139 crore of SDF, Rs. 81 crore of zero cost loans mainly comprising of the excise loans that the Government of India gave and balance are term loans.

Ashish Gupta

Could you give me the breakup at what rate of interest?

Arhant Jain

Our average cost is 6.82% for the term debt and 10.5% for working capital.

Ashish Gupta

What is your take on the debt figure by next year?

Gautam Goel

We all do believe that a large portion of it, especially the higher cost loan would be repaid by the Company in this coming year. It is still early for the exact numbers as to what sort of cash-flows we will have, but we have normal repayments of around Rs. 105 crore which will be done and there will also be some extra prepayments which Company would do out of its cash flows.

Moderator

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

Achal Lohade What would be the cost of production of power assuming USD 65 per ton of coal price, because we would either be importing coal from outside or buying from the local auctions? So what would be the cost?

Gaurav Goel Currently we have done trial with various grades of coal. As of now the cost including the variable cost comes to around Rs. 4 or Rs. 4.25 per unit. This is what the current numbers are looking like.

Achal Lohade What coal price is this based on?

Gaurav Goel It is between USD 65 and USD 70 for different grades.

Achal Lohade Is that landed cost at the factory gate?

Gaurav Goel Factory gate cost is about Rs. 5,000 a ton taking into account all handling, freight everything put together.

Achal Lohade What are the current open access rates?

Gaurav Goel See in the month of November there has been a fairly poor demand. There was a good rate prevalent in the month of October because of late rains and everything. However, we do not find it worthwhile to sell power in open access in the month of November.

Achal Lohade Is it that we need to have some more permission, are we are waiting for the clarity or something?

Gaurav Goel See as of now, we have got our permissions done, this is valid for the current year and hopefully the way the policy has come out and way the central CERC policy guidelines are we are fairly confident that now

our open access situations should continue.

Achal Lohade

Just wanted to check on the water availability in UP. Do you expect to see an increase in in the season?

Gaurav Goel

In UP, the cane crop has not really been that drought affected because of the excellent irrigation facilities at least where cane has grown unlike Maharashtra. The factor for increase in cane area will be price driven. It seems possible that next year could be higher than this year, but again it will depend on the fundamental area. The fundamental reason for cane crop to increase or decrease in UP will be the cane price payment of course and prices of the alternate crops like wheat and rice. So in this environment, we do believe that UP should see an increase in cane area next year. To what level will again be dependent upon the final price being paid to the farmer and the availability of seed.

Achal Lohade

What is your sense on the competitive price for cane and at what rates are the farmers more induced to plant more cane rather than other crops?

Gaurav Goel

I would imagine about Rs. 170 is a price which gives a positive signal. I do not think it will give us a signal to completely switch over, but it will be a positive signal. But I believe another factor is how this FRP situation pans out and what sort of impact it has on the farmer's mindset.

Achal Lohade

What is the refining cost and what can we assume in the numbers?

Gaurav Goel

Our total refining cost comes to around Rs. 4,000 a ton. It takes into account everything i.e. from that point of vessel arriving into the port

for discharge, freight, processing cost and losses.

Achal Lohade

How much would your pure refining cost be?

Gaurav Goel

At the factory gate, it is approximately Rs. 2,000 a ton.

Achal Lohade

Is this after the power that you generated and sold in the process?

Gaurav Goel

We all charge for the power and the steam as of cost to the raw sugar.

Achal Lohade

So this Rs. 2,000 a ton includes that power cost and all.

Gaurav Goel

Yes.

Moderator

Thank you Mr. Lohade. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah

Just looking at your numbers, they seem to be adding up extremely well for fiscal 2010. What is your game plan for fiscal 2011 in terms of how you see the dynamics between crush cane and the raw sugar imported moving through and what is your game plan in terms of either going in for greater contracts earlier, before the next fiscal or in terms of making sure your farmers are protected with their economics and they grow more cane next year?

Gautam Goel

Out here, our policy on this is extremely clear. We are always trying to find opportunities to buy more raw sugar. We have the capability to reprocess more than what we have already contracted for. We are just waiting to see at what prices does the realization really settles once the sugar mills start and post that we will again be back in the market to contract for more raw sugar. On your other question for the year

after next, its still very early days to see us as to where the cane planting really happens, but we do believe that India will still need to import sugar even the year after next and we will again be there once again to be able to take advantage of this arbitrage.

Gaurav Goel

I would just like to add that fundamentally if you look at the structure of our business with our power business, hopefully we do continue to probably get 300 to 330 days running out of the power business. It gives us a tremendous offset to our co-gen side of the business which of course becomes a healthy profitable side of the business. Then, that gives us the raw sugar opportunity. So we do anticipate good year going forward specifically on account of power and opportunities in raw sugar if they arise.

Nillai Shah

But the issue is that, if you look at the numbers they seem to be adding up extremely impressively, however, the stock price is unfortunately reflecting something else. So I believe what the investors could be questioning about the profitability in 2011 as this just a one year flash profit.

Gaurav Goel

See if you look at a our capacity and if you look it from a broad perspective; going forward the FRP issue which was the single biggest uncertainty regarding cane price, I think that will take a way a lot uncertainty with regards to the cane pricing issue in the sugar sector up north at least. These are early days, this is a first year but effectively it is a very bold and positive step in the right direction from the industry's perspective. The second issue when it comes to cane pricing is that we will be equally well placed or equally badly placed as compared to the rest of the industry. We have adequate capacity; our value addition part on our capacity with regards to 40% of our sugar being refined sugar is there. The third big aspect of our business is the co-gen side of the business, which again because of this multi-fuel and

on account of open access is looking very well. Fundamentally one has to have a view what would you anticipate the power situation to be and then what sort of margins you want to anticipate in the sugar business. We should be right up there with regard to the margins including the value addition 40% of our sugar being refined also. I think we should be able to sustain our performance in the years going forward.

Nillai Shah

The second question on this, in terms of where New York is right now, you are looking at about 21 cents. I believe that if you sold a part of your contracted sugar last year, it seems that you could potentially be making a profit on that trade already?

Gaurav Goel

We sold it at a good price last month.

Nillai Shah

So again if you are talking about 15 million tons of production we will run out of sugar by August unless we contract more. So what is stopping companies like yours when you have more capacity to go out and actually contract very, very aggressively at these levels?

Gaurav Goel

You have a situation when you look at New York. May is softer than March, and there is a view that eventually we are there in the market. I am not saying we are not there in the market but it is purely an activity what the physical discounts are playing like what the future months are and also as of now we sort of our capacity is booked till April. So, I do believe we have some time to watch and maybe come in when the market corrects itself for a little bit more. We do believe there is a chance of that happening.

Nillai Shah

Let me put it differently, what do you think triggers the market to correct itself further from these levels?

Gaurav Goel

See I think that as we all know that India has not really brought any real quantities of raw sugar in the past 7 weeks and that is why we have seen New York sort of coming off to a certain extent. Let us just wait and see as to where the Indian sugar prices really stabilize what a viewer base if you look at is New York vis-à-vis Indian prices. Current prices of Indian sugar are extremely good but, let us just wait for the sugar mills to start, which should start within the next fortnight and then see where Indian prices get stabilized. Then see New York and if there is an arbitrage, I am sure that sugar companies in India will again come back to the global market and start buying back.

Moderator

Thank you Mr. Shah. The next question is from the line of Sanjay Manyal from ICICI Securities. Please go ahead.

Sanjay Manyal

Do you think it is really viable at this point to import raw sugar, considering the global prices are also high and domestic prices have touched almost Rs. 35 a kg.?

Gautam Goel

See as on date with the current sugar price in India and New York, we really have to wait and see once the sugar mills start as to where this price really sort of stabilizes. Whether it stabilizes at Rs. 35 or at Rs. 31 or Rs. 32. So, we all are just waiting for that to happen prior to us taking a call on further imports.

Sanjay Manyal

As on 1st of October there was very little sugar available with the mills, and probably this would be the time that most of the mills would have sold their amount and I believe crushing has not yet started in any part of India at this time. So is it possible that sugar will not be available even physically in the market?

Gautam Goel

We have been doing this assessment on a regular basis. Fundamentally crushing in Maharashtra has started, but there is a

tightness that is being reflected in the sugar prices today. We are also going to keep in mind that there was certain amount of white sugar that have got imported and all of that is being liquidated, but yes, going forward in the event factories were delayed by more than a couple of weeks, what we believe is that you will actually find physical shortage and that is one of the reason that Gaurav has also been talking about that we would like to be a little cautious as he would like to use today's numbers at the base for a future raw sugar contracting and would like to wait and watch till the domestic market stabilize and then take call at that point of time.

Sanjay Manyal

Do you think that India still needs to import to meet the next year consumption; will it be like 2 or 3 million tons or more?

Gautam Goel

No. I think it will be substantially higher because our figures show us a consumption numbers of over 23 million tons and the opening stock for 2009-2010 stood at hardly 1.5 to 2 million tons. There was 5 million ton of sugar that got contracted and at least a million ton got consumed in the last year itself. So if you believe that the production is going to get into the region of 16 and if you believe the consumption is going to be about 23 million tons, then you have about 3.5 to 4 million tons of imports to come.

Sanjay Manyal

So, do we probably see a similar kind of physical shortage next year also i.e. during August to October probably?

Gautam Goel

I think that next year is going to be a lot tighter to be honest because there is no carryover stock

Moderator

Thank you Mr. Manyal. The next question is from the line of Aashish Urganlawar from Sharekhan. Please go ahead.

Aashish Upganlawar Can you give us a sense of where the cane prices are going to be for us this year? There has been a lot of agitation regarding the price of being more than Rs. 250.

Gautam Goel I do not think Rs. 250 is a realistic price by any sense, but I do not think it will be prudent for us to comment on that right now as it is a little critical at this time.

Gaurav Goel Yes and plus we have to also realize that this is a year-on-year thing. We do have certain issues with the farmers on cane pricing during the start. We have had this for the last three years so it is not anything new. I am sure that going forward i.e. in the next couple of days or weeks, we will come to some settlement with the farmers on the cane price; but what would be the exact number is still very, very early and it is slightly premature for us to comment on that.

Aashish Upganlawar What are your current realizations of white sugar?

Gaurav Goel The current prices are in the range of around Rs.34 to Rs.35.

Aashish Upganlawar Would it be a fair assumption of about Rs.30 kind of realization for this year because I know that since the crushing has not started these prices are not to be believed for the entire year?

Gaurav Goel That is the number I would imagine, we would take for ourselves.

Moderator Thank you Mr. Upganlawar. The next question is from the line of Sandeep Somani from HSBC. Please go ahead.

Sandeep Somani My question is regarding your strategy on part of the raw contracts

which you have really booked. Is it that you are expecting cane prices to be very high such that your margins of profit would be lower than what you have really done a trading gains?

Gaurav Goel

Our strategy for raws is very clear and we all know that India has had a shortage. We have one of the largest refining capacities in North India. With these capacities we knew that we are extremely well placed to be able to take advantage of this arbitrage which was there between the global price and the Indian price. It was no way trying to replace cane with raws; but it was basically trying to add on raws to our cane.

Gautam Goel

I would just like to add that the strategy was in this whole integration model that we have been perusing very actively over the last so many years i.e. refinery, co-gen and everything put together because sugar business by its nature, especially the way the consumption in India is growing, we do believe it will continue to present us with opportunities to refine. So that was the reason why we invested in refineries and co-gen and we believe that both these things put together, fit very well.

Sandeep Somani

Recently there has been some estimate coming out from the government that the cane production is likely to fall 9% Y-o-Y and the numbers which you are sharing is in fact 10% increase in two of the largest states. So, are you factoring in the recovery to really take care of this fall?

Gautam Goel

Say two reasons, last year the yields were very low, the cane area was of course a little lower. But again, if you look at the full Indian situation, Andhra is reporting a substantial decrease, Punjab and Haryana also has decreased while UP has not really reported a great amount of decrease as such. During the last year, one has to keep in mind the yields were really low and the recoveries were also really low. Farmers

have worked hard at their cane crops this year and the yields definitely should be better and that is another fundamental reason why we believe the two major sugar producers will definitely do a lot better.

Sandeep Somani

With regards to the broader infrastructure, as far as imports are concerned, if I look at the numbers which you have been sharing on the closing stock and how the demand and supply numbers are, in the current year itself, India could potentially need around 6.5 to 7 million tons of import. Now looking at the ports availability and the other grains like pulses and rice which need to be imported, do you think there is a capacity constraint on the port level itself to really handle 7 million tons?

Gautam Goel

I do not think 7 million tons would be the number that probably would be required. We work around more to the tune of 4 to 4.5 million tons or 5 million tons maybe and in terms of infrastructure, we believe a lot of infrastructure has been created and is working efficiently. Apart from that you have private ports and you have multiple options of board, right from East Coast to West Coast. So I think the infrastructure will not be a constraint. The constraint with regards to the refining capability in the country.

Sandeep Somani

What is your expectation with the total contracted quantity how much has already landed in India?

Gaurav Goel

See approximately a little over 5 million tons was the last authentic reported number that got contracted. But we also know that there was wash-out that took place during the peak of the sugar prices. Along with that I would imagine a decent portion of that has come in on the way, and that is with raws and white sugar. So we would imagine about 3.8 plus minus 0.2 to be carried forward for 2009-2010 and that would be white sugar which has got sold during this period.

Sandeep Somani I am trying to understand that if it is not landed then there is a propensity that more contracts could be really squared off to take the advantage?

Gaurav Goel It is difficult to say, but I would assume that the lowest price sugar would have already landed and in today's market they might not get a higher price for sugar, so I do not anticipate that happening right now to any great level.

Moderator Thank you Mr. Somani. The next question is from the line of Krishna Kumar from Sundaram BNP. Please go ahead.

Krishna Kumar Could you give us some sense on what the UP government is doing for controlling gur production at least in the early part of the season?

Gaurav Goel Nothing at all right now.

Gautam Goel There have been some marginal activities but nothing great to talk about.

Krishna Kumar How are the gur prices?

Gaurav Goel The gur prices have dropped to a large extent, from their peak of Rs. 30 to currently at about Rs. 22 to Rs. 23.

Krishna Kumar There has been a lot of talks recently of consolidation by two major players in UP. Could you give us a consolidated view on other players? How do you think it is going to be beneficial if it happens? Do you think the industry would get back a fair bit of pricing power in terms of buying cane?

Gaurav Goel

As far as that point goes, there is always an opportunity for companies or factories which might merge or might be bottomed. As to what sort of benefit it might have on cane price, it is very hard to say as it depends on area to area and factory to factory.

Gautam Goel

On cane price one has to have a little broader and a long term perspective because you have to keep a cane price which is the single biggest factor of cost. With regards to cane price is this FRP which has come out right now and restriction on the ability of the State Governments to announce a politically motivated SAP, Beyond that, factories will probably take a little long term view on their position because they do not want the cane to disappear and simultaneously they want to make a reasonable return on the sugar they produce.

Krishna Kumar

As far as the FRP is concerned, from whatever we have read, we do believe that the final effect in terms of how the levy price can be calculated and probably what the kind of reimbursement you will be getting. The final word is yet to be out. So how do we think that FRP finally is an effective solution?

Gaurav Goel

In FRP, we would not get any reimbursement. The reimbursement, if any, will be to the farmer. That is what the law says today. Governments can always change the law. I mean one can act upon what we believe what is the law today and what we believe could be a reasonable situation around it; but fundamentally you have to understand that after the recent judgment of Supreme Court with regards to the actual cane price being relevant for levy price calculations there is an intrinsic requirement in the Central Government to keep the sugar prices for the PDS at a reasonable level. They do not want to subsidize the sugar prices but also want the sugar to be reasonably priced for the PDS segment. So the reason why FRP came about is purely from that fundamental nature that they

need the sugar to be reasonably priced. And this is our assessment right now as you will probably see a balance emerging within this year itself between the farmer and the industry. They could come to a negotiated price.

Gautam Goel

On the other side, this is the first year and this is a year when sugarcane is in shortage. This would be of an advantage in the long term interest of sugar, overall in India and especially for UP which had a very high SAP which was not at any point of time linked to the sugar price. This year FRP perhaps has little meaning because we all know that we all will pay higher than that price, but during the years when sugar will be in excess I am quite sure that sugar mills especially in UP would just continue to pay the FRP. So in that way it is excellent for the long term not for a short term.

Krishna Kumar

If you are able to buy bagasse and other non-conventional material and still run the plant in the off-season, would you be able to again sell at merchant rates or would you have to give 100% of the production to the government?

Gaurav Goel

You answered the question yourself. Let us say there is a little doubt whether in off season we can sell power through the merchant rate but even if we have to sell to the government wherever the value addition is higher we will do that. If we believe the value additions through merchant is higher than buying coal, then we would not buy the other biomass or other bagasse and things like that. So what I am trying to say is that you have the option to do both.

Krishna Kumar

What will be your raw sugar processing capacity?

Gautam Goel

We have the capacity to do about 1,700 TPD during off season and during the season it will depend upon cane availability in our different

plants. But we anticipate it to be in the region of about 1,100 to 1,200 ton in season also.

Krishna Kumar What will be the kind of inventory that you are carrying in Rupees/Crore as of 30th of September?

Gaurav Goel In terms of Rupees/Crore our total inventory is Rs. 140 Crore.

Krishna Kumar But as per your raw sugar stock, you should probably be having about 1.6 Lac tons.

Gaurav Goel No. This stock that we are talking about is only for our white sugar and the raw which has come to us at the factory as of 30th September.

Gautam Goel Some of the raw sugar is also on way.

Moderator Thank you Mr. Kumar. The next question is from the line of Sanjaya Satapathy from Merrill Lynch. Please go ahead.

Sanjaya Satapathy I just wanted to understand the profit that you reported for sugar during the September quarter, because as I see, the difference in the realization between September quarter and June quarter is significantly higher, but the margin has not really moved up as much?

Gaurav Goel The fact that in these 3 months, there are also other costs which have been added onto the sugar segment basically on account of repair, salary wages so this is the sort of margin that we all enjoyed during this quarter.

Sanjaya Satapathy So what was your average cost of production of sugar for the full year?

Gaurav Goel Rs. 20 per kg.

Sanjaya Satapathy On an average, the margin remains at around that level and if your cost of sugarcane moved to let us say Rs. 200 than to what levels will this Rs. 20 go to?

Gaurav Goel As we said that our average cost of cane was Rs. 160 last year. So if we take it at Rs. 200 then at about Rs. 40 with recovery of 9.5% it will go up by about Rs. 5. So the Rs. 20 will become Rs. 25.

Sanjaya Satapathy So you are not going to have any savings in terms of higher scale of operations?

Gaurav Goel The higher scale of operations would mainly come as a profit on the raw side.

Sanjaya Satapathy What will be the cost of your raw sugar?

Gaurav Goel See we are not giving exact numbers right now, but all that we are saying is it is substantially lower than the current world market prices.

Sanjaya Satapathy I am interested in knowing what will be the final cost of producing that white sugar from raw?

Gautam Goel Rs. 4,000 is what we said is the ruling cost, the cost of raw sugar plus Rs. 4,000.

Sanjaya Satapathy So it will be lower than this Rs. 25 from cane?

Gaurav Goel We have decided not to disclose but yes you can assume that right

now.

Sanjaya Satapathy So assuming that including levy, your average realization would be somewhere around Rs. 30; there may not be a significant change in profit per kg compared to what we achieved in the quarter ending September?

Gaurav Goel If we really see it from cost of Rs. 20, our average selling price for the year was around Rs. 22.8. So from there you saw an arbitrage of Rs. 2.8 while if you are saying from Rs. 25 to Rs.30 the arbitrage changes from Rs. 2.8 to Rs. 5.

Sanjaya Satapathy But you had the inventory benefit in this year also?

Gaurav Goel Obviously; but then that sugar was sold earlier in the time when sugar prices were lower. We do believe that there will be an improvement in the profit margins for sugar also in this coming year vis-à-vis last year.

Sanjaya Satapathy In terms of quarterly sales of sugar quantity, do you think your December quarter would be significantly higher than that of September quarter or the real increase in the quantum of sugar sales including raws will be seen in the quarter ending March?

Gaurav Goel During the quarter our sugar production will commence. Sales will depend on the releases the government gives and things like that; but in both, we all expect sales to be at almost the same sort of levels.

Moderator Thank you Mr. Satapathy. The next question is from the line of Nirmal Shah from Alchemy. Please go ahead.

Nirmal Shah Just going back to the last question which was asked, your average

cost of sugar is Rs. 20 a kg for the year and for the 4th Quarter your realization was close to Rs. 27 a kg. So the margin was roughly around Rs. 6 to Rs.7 per kg and you sold roughly around 110,000 tons. so EBITDA in that terms works out to be roughly around Rs. 75 Crore while if I go back to the results it comes out to be somewhere near Rs. 45 Crore EBITDA including byproducts. So I am not able to get where am I going wrong or are there some adjustments?

Gaurav Goel

No there are not. Basic costs such as repair, employee costs, depreciation and other expenses have brought it down in the segment results.

Nirmal Shah

So after Rs. 160 of cane cost what cost does the remaining Rs. 40 include?

Gautam Goel

You are asking me on the sales side, the sales side is Rs. 20 plus whatsoever we sold that is the arbitrage less what we spent.

Nirmal Shah

What I am trying to say is that you mentioned Rs. 20 of your costing which includes cane plus your conversion cost. So what I wanted to check is that there was a employee cost and depreciation. However, I am not including depreciation in EBITDA. So what does the remaining Rs. 3 to Rs. 4 of conversion cost include such that the final figure can be arrived at Rs. 45 Crore?

Arhant Jain

Actually some of the cost was not considered because we are valuing our inventory as AS 2 of the Institute of Chartered Accountants of India and some of the cost as per the AS 2 is not included which is not the direct cost and part of the employee cost and administrative expenses are not included there. Moreover, total sale of 1,05,000 tonnes during the quarter also comprise of levy sugar on which no margin is received.

Moderator

Thank you Mr. Shah. The next question is from the line of Abhilasha Satale from Techno Shares. Please go ahead.

Abhilasha Satale

Was SAP declaration and confusion arising due to FRP and SAP in the court. Can you please give us the major reason for the late crushing?

Gaurav Goel

No, that was one lag of the reasons but not the only one. The other one is that almost on a year-on-year basis we do have certain issues in starting of factories vis-à-vis the cane price to be paid. FRP for sure has added to that whole issue with the farmers and politics plays a very important role in this. So we are hoping that in the next few days we all might be able to solve this issue with the farmers.

Abhilasha Satale

Would last years situation arise again that the recovery percentage to sugar will decrease due to late rain started because in the last concall you had mentioned that the crushing was expected to start from late October or early November which is again delayed. So is it possible that even in this season the drawl percentage toward sugar production will reduce?

Gautam Goel

Yes there is a good chance that could happen and see the drawl percentage of course will be dependent upon the delayed start will happen, impact on that for certain. And also what the alternate segment pays which is the gur and khandsari segment. As of now, the healthy sign is that gur prices have come off. This is maybe one of the reasons we do advocate because of gur prices are getting a bit soft in one of the major markets of illicit gur which is Gujarat. So there has been a clampdown on gur into that area and probably if that continues to remain, we could see that gur might not be able to compete with sugar. That is our hope.

Abhilasha Satale Is it on realization basis or the cost paid to the farmers?

Gautam Goel Realization of gur basically is lower and they can obviously pay lower. So that could be a positive advantage for us. Also, one of the main markets for gur , which was Gujarat being not available at this point, we do believe that will continue to sort the gur prices in check.

Abhilasha Satale What are prices of rectified spirits currently?

Gaurav Goel Rectified spirit prices are at about Rs. 24.

Abhilasha Satale What is your take on this realization going forward? What do you expect next year with the sugarcane availability scare? Or do you feel that rectified spirit prices will again improve going forward?

Gaurav Goel See, one of the major reasons for rectified spirit to be a little more depressed than what we anticipated was availability of grain based spirit. Now, if the grain availability reduces this year, then obviously you could see an increase in price of grain and you could see a price of this spirit also going up. So, looking at the current situation, it is a little early to say because real availability of grain crop will only start coming post January/February onwards.

Abhilasha Satale I just wanted to confirm that raw sugar imports, you mentioned it was around 3.5 million ton at country level in the current year

Gautam Goel About 5 million is what the contracted amount is, out of which we believe some of it got consumed in the last year itself which is about 1-1.2 million tons. That is what my belief is.

Moderator Thank you Ms. Satale. The next question is from the line of Ajay Vora

from Enam Asset Management. Please go ahead.

Ajay Vora

So the total cost of production would be higher than Rs. 4. So what would be the selling prices?

Gaurav Goel

We do not have any contract this November. However, in October, we sold at a decent margin.

Ajay Vora

So what was the selling price?

Gautam Goel

We do not have contracts in November because we just got the permission in September for undertaking any contracts. But in November, the demand for power was at a lower price and we were not interested in selling at that price

Ajay Vora

How does it work? Suppose if we want to enter into contract for January?

Gautam Goel

We cannot enter in January because we are in the middle of the season. But say if I want to enter into contract for April/May when the season would be over, I could do that. Also if the prices seem viable we could enter into a contract right now. Right now people who are experts in power advised us that it would not be the best time to go into it. Power when starts firming then probably you will be better placed to undertake maybe a full five to six months' contract for power during the off season.

Ajay Vora

if you want to enter for the month of April, are we able to get a price as of now?

Gautam Goel

Today is not the best time to get a price.

Ajay Vora No, even say if it is not the best time, what are the prices they are quoting for the month of April?

Gautam Goel We have not really gone out right now because of the people who are in this business advising us not to come out.

Gautam Goel We do not have a number on that as of now.

Ajay Vora You said that the crushing will start in a fortnight or so, so when are expecting the final white sugar to hit the market from all the mills?

Gautam Goel When the factories decide to start, they will take a minimum of three to four days to start and at least three to four days before the first crop of white sugar starts coming out. It will be a week after that.

Gaurav Goel So you can assume that the first week of next month is when you might see the new crop coming into the market.

Ajay Vora Have we started negotiating and talking to all the farmers for cane?

Gaurav Goel Yes. Obviously the talks are already on with the farmers and we do hope that in the next couple of days, we will come to some an understanding with them and the factories can start.

Ajay Vora So what are the approximate prices that we are looking at for cane?

Gaurav Goel See, as of now, there are only two legal prices of cane, one is FRP and the other one is SAP.

Gaurav Goel FRP is Rs. 129.8 which is a linked to 9.5% recovery and the SAP is

Rs. 165. So those are the two prices on which we all are talking to the farmers. The SAP seems to be closer to the price at which we will start.

Ajay Vora So the SAP is almost notified by the government over there?

Gaurav Goel Yes, SAP has been notified.

Gautam Goel See SAP notification came out before the FRP notification.

Ajay Vora What sort of volumes are you looking at along with raw sugar for this year?

Gaurav Goel See as we said that last year, we had produced about 2.4 lac tons of sugar. We are expecting it to improve to a certain extent, so anywhere in the range of 2.5 to 2.6 lac tons is what we hope to make out of cane this year.

Ajay Vora And in addition to that is raw sugar, right?

Gaurav Goel Yes.

Ajay Vora So how much is that?

Gaurav Goel Raw for this year which has already been contracted and with us is 1.74 lac tons which we will reprocess and sell this year.

Ajay Vora So, 1.74 lac tons will be sold of raw sugar during the year?

Gaurav Goel Yes.

Moderator

Thank you Mr. Vora. The next question is from the line of Sunny Agrawal from Finquest Securities. Please go ahead.

Sunny Agrawal

Good evening. I would like to know the sugar scenario from the perspective of international market. Is it possible that production can be suddenly ramped up in Brazil, Thailand and Australia so it will lead to the decline in prices in international market and the same pattern will follow in India over the period of next two years? Can you throw some light on that?

Gautam Goel

See international sugar production; let us say the big boy is Brazil. In Brazil, this year they have had a considerably lower sugar production on account of adverse weather. Now, over that, let us also keep in perspective the capacity expansion that the place in Brazil was only in the ethanol sector. So even Brazil has substantial cane producing capabilities, their sugar production capability is still a little restricted. The number that people do talk about is that in this year they are anticipating Brazil to Central South Brazil which is a main producer to produce about 29 million tons of sugar. Probably what people believe is that it could go up to 33 odd million tons. Now with regards to Australia, there isn't much of scope to increase over there. It is purely driven by the climatic conditions, so Australia does not have a big role to play there. Similarly, with Thailand, whatever little sugar they produce, it could go up but again by 0.5 million or 1 million tons. Those are the kind of numbers that can come around. But when you look at the international market, this is the perception of the people in the press. The reason for the market to have got depressed at all time was because whenever India was exporting, with the consumption levels that are being seen in India with the growth in consumption, there is a good chance that India might not return to the export market at all because of land prices and the growth in consumption. So, there is a belief that sugar prices should remain healthy internationally also.

Sunny Agrawal What was our average realization for ethanol in fourth quarter and for the full year FY09?

Gaurav Goel There were hardly any sales which have taken place throughout the whole year for Ethanol. But the average for last year was Rs. 21.5 per liter.

Sunny Agrawal How will it pan out in FY10/FY11?

Gaurav Goel See the tenders had been quoted but those tenders have still not been finalized. So I do not say there are no contracts which are there with the OMCs. Hopefully over the next four to six weeks, we might see some contracts being finalized and at that point of time, the pricing will come out. The tenders ranged from Rs. 26 to Rs. 29 per liter.

Moderator Thank you Mr. Aggarwal. The next question is from the line of Nirav Vasa from Gupta Equities. Please go ahead.

Nirav Vasa The UP Government was interested in disposing out the sick units which were there with cooperatives. Would it be possible for you to throw some light on that aspect?

Gaurav Goel That matter is pending in the court right now. There is a stay on that. So as of now that matter is still held up and we really do not know as to what will happen in that.

Nirav Vasa Coming back to the FRP issue, is there any arrangement in the regulation of FRP that the prices of cane would be linked to sugar prices?

Gautam Goel No. FRP is basically doing linkage of sugar price with sugarcane

pricing. It basically said that this is the cost of cultivation. There is a risk associated with cultivation for which they put a number and return to the farmer in effect giving a clear cut signal that this is the cost of production plus minimum profit that will be given to the farmers.

Nirav Vasa

So, it is in lines with the SMP?

Gautam Goel

SMP had two components. The SMP had cost of cultivation and low profit margin therein, minimal profit margin and then they talked about 5A which was never really implemented which was sharing of the sugar revenue. So what they have done now is they have said that this is the price that has to be paid to the farmer which is giving them a return on this risk and a return on the profit associated with it.

Nirav Vasa

In the last quarter of FY09, the levy quota was increased from 10% to 20%. So, would it be possible for you to share the actual outgo of sugar in terms of levy quota for industry as a whole and for Dhampur?

Gaurav Goel

Last year it was 10% which was given by Dhampur as per its release and that is what we believe is the average for everybody.

Gautam Goel

Marginally over 10% which would be adjusted next year.

Nirav Vasa

What were the realizations for this, Rs.13.30?

Gaurav Goel

Yes, that is right.

Gautam Goel

As of now, government just to rework the levy price which they will probably do basis the FRP.

Nirav Vasa

So, as of now, whatever the dispatches are going on for levy quota,

are they going on at Rs.13.30 also.

Gautam Goel

As of now this is the price.

Nirav Vasa

In case, if the levy prices of levy quota is done at higher level, which is about Rs. 13.30, so is there any clause which is there that you will be remunerated with retrospective effect?

Gautam Goel

The government has to fix the levy price for every year. Now whichever year they increase the levy price so whatever sugar they have taken on that year, they would have to repay their difference. That is what happening and it continues to happen.

Nirav Vasa

Any idea about the coal linkages plant that you have?

Gautam Goel

Coal linkages plant will happen. Now that we have got our multi-fuel arrangements and of course our open access situation happening, we are going to begin work on our coal linkage.

Moderator

Thank you Mr. Vasa. The next question is from the line of Urmil Shah from Anvil Research. Please go ahead.

Urmil Shah

Our off season coal based power plant capacity would be 105 MW?

Gautam Goel

No, it will be approximately between 85 and 90 MW and it will subtract the auxiliary consumption and whatever consumption we have.

Urmil Shah

So that is the saleable part you are saying?

Gautam Goel

Yes.

Moderator Thank you Mr. Shah. The next question is from the line of Jehan Bhadha from Darashaw & Co. Please go ahead.

Jehan Bhadha What are current prices that the gur manufactures are paying for the cane?

Gautam Goel It varies from region to region from Rs. 120 and Rs. 140.

Jehan Bhadha So there is no question that you will be paying any price more than the SAP because there is no competition right now. So obviously we will just pay SAP, is that right?

Gaurav Goel As on day, that seems to be the case, but again let us wait for a couple of days for a final price to be set for sugar factories for UP.

Jehan Bhadha But the farmers will actually be quite happy even if they get a price of Rs. 165-170.

Gautam Goel Farmers will be happy if they get Rs. 300.

Jehan Bhadha Since there is nobody else to sell their cane, so you all are in a good position to bargain.

Gautam Goel Actually the people in the factories do not come in....we do not really look at it as purely particular opportunity across. It is a very long-term view that we have to take.

Moderator Thank you Mr. Bhadha. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah

I will just carry on from the earlier question of the quarterly profit. Correct me if I am wrong. The costs are basically accrued on a pro rata basis wherein it is not the total average cost of Rs. 20 for the whole year. In the fourth quarter, the cost per kilo is actually much more than the cost in the first quarter? So could that explain the reason why the headline numbers seem slow?

Gaurav Goel

Yes. There are other costs in this as well. As you know that as per AS2, there are only certain costs that you can take as the part of cost and the balance are not a part of your stocks valuations. So when we take both of them, these are the sort of EBIT and PAT numbers that came out for us.

Nillai Shah

So this is purely because of the fact that in the first quarter, you can only apportion certain part of your costs.

Gaurav Goel

Absolutely.

Nillai Shah

So can you give me the number as to what is the cost of production for the fourth quarter alone? Would that be possible right now?

Gaurav Goel

I will get back to you on that.

Moderator

Thank you Mr. Shah. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain

There was a news item that there was an agitation against the movement of the raw sugar. Is there any development on that?

Gaurav Goel

As of now, the farmers, in the last 10 days have agitated for raw sugars to be brought into the state of UP and that is still continuing.

We believe that as soon as the sugar mills start in the next few days or weeks that it will get over. Fortunately for us, we had no raws in transit, so our raws are either on the high seas or at the factories. But that is a fact right now in UP.

Sunil Jain

You said that you will be trying for coal linkage for power in the off season. When do you expect development on that?

Gautam Goel

The coal linkage is a little lengthy process; you have to first have the coal generating facilities in place. Now what I have been given to understand by various people in the business, they say it could be anywhere between four to six months.

Sunil Jain

Then you mean to say that post the sugar season is over, then you have to run for four-five months and then you can get a linkage.

Gautam Goel

No. I can apply for it now with the papers which are actually being prepared in our office but they say their total process is about four to six months from the time you apply. It is a little tedious process.

Sunil Jain

Is it possible that we may get linkage in this off season?

Gautam Goel

If we are lucky, we should.

Moderator

Thank you Mr. Jain. The next question is from the line of Rajiv Agrawal from Eureka Securities. Please go ahead.

Rajiv Agrawal

You said that cost of production for co-gen from coal is around Rs. 4.25 per unit. So does this cost include only coal cost or any other costs?

Gaurav Goel Well, this is basically only coal cost.

Rajiv Agrawal If I take Rs. 6 per unit as the selling price for which we have sold recently, if there are any other costs, can I assume a margin of Rs.1 per unit for this power made from coal?

Gautam Goel Ideally at this point of time, we do not want to give too many of these details because there are some tariff negotiations going on. So we would not be inclined to give too much of details at this point of time.

Rajiv Agrawal Could we assume that this Rs. 6 per unit would be the minimum price that we could get in the coming season?

Gautam Goel That is what we are hoping for, so let us see. This is our first year. But people in the business seem to tell us not to get too greedy. But we believe that your minimum expectation should be between Rs. 5.5 to Rs. 6.5 to Rs. 7.

Moderator Thank you Mr. Agrawal. The next question is from the line of Raunak Nagda from Valuequest Research. Please go ahead.

Raunak Nagda What is the expected figure of crushing in terms of million tons for whole the industry in the coming season?

Gautam Goel We are anticipating sugar production to be about 16 million tons. It depends on the recoveries, but it could be about, I would imagine about 170 or 165 million tons of cane and about 16 million tons of sugar production.

Moderator Thank you Mr. Nagda. The next question is from the line of Ashish Gupta from Kotak Securities. Please go ahead.

Ashish Gupta Just to understand, the raw sugar that is left with you is 174,000 and is going to be processed from raw to white right?

Gautam Goel Yes.

Ashish Gupta What I need to understand here is that now when the crushing starts, would you be using bagasse to generate steam and then power and would you be converting this raw during the off season or would you be doing it during the season only?

Gautam Goel We would be doing both. We would be using our bagasse fuel and converting part of the raw sugar into refined sugar at that time or plantation white sugar at that time. When the season is over, the balance leftover raw sugar will be consumed using coal.

Ashish Gupta Can you give us an idea, since this is the first year and you are the first one to have this multi-fuel boiler, how much of the 174,000 do you expect to do before the season i.e. before March?

Gautam Goel See, roughly the way the numbers are panning out right now we would imagine between 130,000 to 140,000 tons is what has been estimated at this point of time will be done within season and the balance probably will be in the off season.

Ashish Gupta Would you be using bagasse only for this raw sugar processing or coal?

Gautam Goel There could be a combination of both. Depending upon bagasse availability, prices and things like that. We have the flexibility. Multi-fuel boilers are what we installed from day one. We just augmented; we had just put the coal handling system because when we ordered, we

ordered our boilers to be able to handle coal, so the coal handling and firing system is what we put.

Gaurav Goel

We may use both coal and bagasse depending on the arbitrage of both. If the price of bagasse is more than the price of coal, then we can use coal and save on our bagasse.

Ashish Gupta

When do you expect to receive SDF during this year? Also, I just need to understand here is that if out of Rs. 590 Crore you would be repaying Rs. 110 Crore which is just mentioned earlier. So what would be the mix of the leftover? Could there be a high proportion of SDF which will lower your interest costs?

Gaurav Goel

The balance SDF that we have got pending is Rs. 21 Crore and we expect to get it within this quarter or early next year.

Arhant Jain

Rs. 105 Crore plus is what we have to repay, but we are hoping that we should be able to repay considerably more than that.

Ashish Gupta

And the last question on the earlier Supreme Court cases regarding the cane pricing, are you aware of the date of the case which it has been postponed to?

Gautam Goel

There has been no date which has been fixed at this point of time.

Moderator

Thank you Mr. Gupta. The next question is from the line of Mona Newatia from Corporate Database. Please go ahead.

Mona Newatia

The UP ARC order states that beyond a 50% Plant Load Factor, you would be compensated only the variable cost. So the effective tariff would come much lower than Rs. 4.20 per unit.

Gautam Goel Basically what they have done is that they have taken all that into account and they have fixed their revised tariff for the next five years starting from October 1st, 2009 which is at Rs. 3.94 for the base year 2007/08 and there is an escalation ranging between 8 to 10 paisa going forward every year.

Mona Newatia But the note below that says that this is only up to a Plant Load Factor of 50%.

Gautam Goel Yes. But that is the season time and I do not think we are going to be running our Plant Load Factor higher than that in the season in any case.

Mona Newatia That is in this season. But in a season when there is more cane availability, it would exceed that, right?

Gautam Goel But in UP, traditionally if you see our season never exceeds more than that. It is always less than half a year every year.

Gautam Goel It would be very hard for all the crushing capacity to have a season which is going more than half a year i.e. more than 180 days. It should definitely be between 170 and a maximum of, I think 160 days. That is what we can imagine with all the incremental crushing capacity.

Mona Newatia So that is not really a concern then?

Gautam Goel Not really.

Mona Newatia Since the SAP is Rs. 165 and the FRP is Rs. 130, then the difference

of Rs. 35 is what the government should be paying to the farmer, right?

Gautam Goel Theoretically, as of now in our understanding of the law, yes.

Mona Newatia So that means if you all are negotiating a price of Rs. 200 effectively you would be paying Rs. 165 or something.

Gautam Goel Not really, obviously it is a little complex right now. What we are negotiating with whatever number we want to put in is what we agree to pay to the farmer. As of now, as per the law, there is no provision for us to be compensated by the government.

Mona Newatia Fair enough, so maybe it is too early to say how it would be?

Gautam Goel Exactly

Mona Newatia In terms of the open access policy in the off season, the UP grid gets the first right of refusal.

Gautam Goel Yes.

Mona Newatia Beyond that, you are allowed to set it on a merchant

Gautam Goel Yes.

Mona Newatia You said that 85 to 90 MW is what your power generation is.

Gautam Goel Generating capacity in the off season, yes. So if you are refining, running a chemical plant, then you should be able to sell between 70

and 80 MW depending on the operating capacity.

Mona Newatia

How much would it be during the season?

Gautam Goel

It would be 80 MW.

Mona Newatia

So just marginally lower than the off season?

Gautam Goel

Yes.

Moderator

Thank you Ms. Newatia. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade

A follow-up question on gur price. You said that gur prices are at about Rs. 22 to Rs. 23 per kg. Should that be because they start early in the season and there is more production in the beginning?

Gautam Goel

They have their own dynamics. One side is today, this is what the market is because of availability coming in. The other point which you have noticed from the time that Gujarat tragedy happened. The prices of gur are dropping considerably, because we all know that Gujarat used to be a big market for gur and that went to illicit liquor manufacturing.

Achal Lohade

So if we think of it alternatively then probably the diversion to gur khandsari mills would be lower than the previous year. So ideally, sugar production should increase much more than that, right?

Gautam Goel

Again, there had not been much of increase in the cane area on ground so because of diversion impact. It is very early right now. But let's say the early assessments are about 5% to 10% higher in UP

because of the increased yield, maybe better recovery and other factors. But in the January quarter, we would be in a far better position to comment on this.

Achal Lohade

You said that the average cane cost for you was Rs. 160 per quintal last year. How much was the payment to the farmers?

Gaurav Goel

Average last year was around Rs. 149.

Achal Lohade

So obviously we paid more than the SAP of Rs. 140 per quintal.

Gaurav Goel

No, but see this Rs. 140 was for general but then Rs. 145 was for early and there was an incentive which was given towards the later part of the season.

Achal Lohade

So we have to pay these incentives to the farmers who have supplied to you earlier as well?

Gautam Goel

No, it was not from retrospective effect, it was from prospective effect.

Achal Lohade

How does it usually work?

Gautam Goel

It depends on the year-to-year basis. But normally it is never really retrospective effect.

Moderator

Thank you Mr. Lohade. The next question is from the line of Vimal Sampat from Sunidhi Enterprises. Please go ahead.

Vimal Sampat

How much savings do you expect in terms of interest?

Gaurav Goel See we all expect substantial saving from this year on the side of interest due to healthy cash flows that we all expect during this year. It is still early for exact numbers but substantial saving is expected on that.

Vimal Sampat About 30%-40% minimum?

Gaurav Goel Yes, we are all expecting that range and we should be able to save on interest in this coming year.

Vimal Sampat Because your inventory carrying cost is also low and as you produce you will keep on selling; so even for the new one, it will be lower.

Gaurav Goel Yes, it should be. What you are saying is true and that is what we are all trying for.

Moderator Thank you Mr. Sampat. The next question is from the line of Gaurav Garg from Enam Securities. Please go ahead.

Gaurav Garg I just wanted to know what the current molasses prices are.

Gaurav Goel See, as of now, there is no real trade which is taking place as there is no real availability. Current prices should be in the range of around Rs. 3,000 to Rs. 3,500 per ton. But these are not the numbers that I will take right now as there are no real sales, which are taking place.

Gaurav Garg Just wanted to know the main reason behind reporting PBIT loss in the ethanol segment.

Gaurav Goel That is mainly because we have not operated much out of that

segment during the last quarter.

Gaurav Garg

So, going forward, when ethanol prices as you mentioned, the OMCs are about to revise the prices, and if by any chance molasses availability is there, is it possible for you to buy molasses from outside, convert into ethanol and sell it to OMCs?

Gautam Goel

See, we have capacity, and with our distillery capacity structure, we pretty much have our own molasses consumption which will take care of our distillery production and if there is an opportunity, one can always buy.

Moderator

Thank you Mr. Garg. The next question is from the line of Aman Sonthalia from Sunidhi Capital Markets Ltd. Please go ahead.

Aman Sonthalia

Our capacity to process raw sugar is around 5 lac tons per annum. At the prevailing international raw sugar prices, our cost of processing was around Rs. 28 per kg whereas the current price in UP is around Rs. 34 per kg. Since India's output is expected to be 13 to 14 million tons this time and probably in 2010-11 the production will not be more than 15 million tons. My question is that why is the Company so conservative in contracting balance raw sugar despite such bullish domestic and international scenario?

Gaurav Goel

Your point is extremely well taken. We are not being conservative but we are being prudent at this point of time. As we said earlier, we are just waiting for the sugar mills to start to try and see as to where the Indian prices settle at, whether they settle at Rs. 30 or at Rs. 34. So we are just trying to wait and watch on that. On the other side, we do believe or are expecting that there might be a chance that global prices hype will soften from where we are right now. So we are in the market. We will continue to follow the market. And as soon as we feel

that there is a positive arbitrage on long-term basis, either ways, on the present raw sugar contracts, we are covered till April. So we have to take a future call which is May, June and July. But we do not want to take the call right now and we will wait for a couple of weeks to take that call.

Gautam Goel

Also, you have to keep in account that there is a cost of carry of sugar in India which is USD 5 a ton and you also have to have a view in the future market post March was lower than the market right now. So if I need sugar in the future, I need not buy it right now.

Aman Sonthalia

In the September quarter, on the expenses side, you have an amount of Rs. 30.94 Crore in purchase of goods account. So can you give me some details on these expenses?

Gaurav Goel

These were strictly genuine expenses which happened on the side of our petrol pumps, on the side of our sugar imports. So these were all those costs which came under other expenses.

Aman Sonthalia

Yes. But it was not in the last year's accounts?

Gaurav Goel

Yes because last year we had no raw sugar. So, that is why those expenses were lower than this year.

Aman Sonthalia

The profit was quite depressed because of this charge in the quarter results?

Gaurav Goel

Not really, because the same was taken into the stock valuation of raws. The Q4 numbers were not really impacted due to these other expenses.

Aman Sonthalia What is the expected quantity of raw sugar processing for the season?

Gaurav Goel As we said, out of the 1.74 lac tons during the season, we will process approximately 1.3 to 1.4 lac tons during the season.

Aman Sonthalia But in the off season, here in Mansurpur and in Asmoli, you can process raw sugar around 1,700 tons per day. So, that comes to around 2.4 lac tons.

Gaurav Goel Absolutely, that is an option that we have and we will keep on following up with the global and the Indian sugar prices and we do believe that we will contract for further raw sugar going forward.

Aman Sonthalia When I am talking to the factories of UP, they talk of lower recovery compared to last year. Their initial estimate is that the recovery will be quite low compared to last year. How is the recovery in your command area?

Gaurav Goel See, we all do not expect it to be lower than last year. On the contrary, we do believe that there should be a marginal improvement from last year.

Aman Sonthalia The expected cash flow will be around Rs. 500 to Rs. 600 Crore this year. Would that be used for repayment of the long-term debts?

Gaurav Goel See, I cannot say whether it will be Rs. 500 Crore or whatsoever are the extra cash flows. But we do expect that a large part of it will be used for prepayment of our higher cost debts.

Moderator Thank you Mr. Sonthalia. As there are no further questions, I would like to hand the floor back to the management of Dhampur Sugar Mills

for closing comments. Please go ahead.

Gaurav Goel

Thank you so much. On behalf of Dhampur, I would like to thank all of you for taking your time out for our conference call. If you have any further questions, please feel free to contact us either by phone or by e-mail which is mentioned in the investor communication. You can also visit our website at www.dhampur.com and post any queries that you may have and we will get back to you. Thank you once more for coming and speaking to us.

Moderator

Thank you, gentlemen of the management. Ladies and gentlemen, on behalf of Dhampur Sugar Mills Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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