



Dhampur Sugar Mills Limited

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Investor/Analyst Conference Call Transcript

Q3 & 9M FY2009

July 17, 2009

Moderator

Ladies and gentlemen, good afternoon and welcome to the Dhampur Sugar Mills Ltd Q3 and 9M FY09 Conference Call. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should 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 like to hand the conference over to Mr. Ishan Selarka from Citigate Dewe Rogerson. Thank you and over to you, sir.

Ishan Selarka

Thank you Melissa. Good evening everybody and thank you for joining us on Dhampur Sugar Mills Q3 and 9M FY2009 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 this conference call with opening remarks from Mr. Gaurav and Mr. Gautam Goel, which will be followed by an interactive question-and-answer session. You may want to know that some of the statements made in this con call may be 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. Gaurav Goel to share his perspective with regards to the Company's performance during the quarter and 9 months ended June 30th, 2009 and the opportunities going forward. Over to you sir.

Gaurav Goel

Thank you Ishan. A very good evening and a warm welcome to all at Dhampur's Q3 and 9M FY09 conference call. Let me start by stating

that we are happy to report a healthy operational as well as financial progress.

During the 9 months under review, Dhampur, having one of the largest refining capacities at 1,700 tons per day, utilized the opportunity offered by the government of India to import and refine raw sugar without re-export obligation to compensate for the lower production in sugar season 2008-2009 and thus meet demand. As mentioned in the previous conference call, we have maintained adequate stocks of bagasse and other fuels to generate power for processing this raw sugar during the season as well as off season. Our focus to implement multifaceted business operations has enabled us in delivering good performance. Sugar division witnessed healthy sales volume on the back of large sugar inventories of sugar year 2008-2009 at higher realizations. Our inventory cost stood at 19,500 per ton.

To add to that, we have reprocessed 0.18 lakh tons of imported raw sugar and it forms part of our current inventories. The total inventories now stand at 1.41 Lakh tons. Though there is uncertainty on the cane availability going forward and production cost being the key challenge, we believe firm sugar prices resultant to lower production, the obvious reason for the rise, are expected to offset this insecurity.

Our co-generation business continues to deliver satisfactory contribution and has complemented positively to our earnings. This growth is in line with our long established strategy to focus on generating revenues from sugar and it's by-products and we expect to deliver a balanced performance going forward.

Our total revenues stood at Rs. 2.75 billion for the quarter under review. For the 9 months under review, our total revenues stood at Rs. 6.55 billion compared to Rs. 4.46 billion in the previous quarter of last year. Sugar segment contributed 92% of total revenues at Rs. 2.73 billion compared to 69% at Rs. 1.1 billion in the same period last year. For 9 months, sugar contributed to 79% of total revenues at Rs. 6.7 billion compared to 66% in 9 months FY08. I would like to add here that we had contracted 0.57 lakh tons of raw sugar until March 31st, 2009. After that, we have contracted for import of further 0.96 lakh tons of raw sugar, thus taking our total imports to 1.53 lakh tons. We anticipate that this conversion will be profitable given our import cost vis-à-vis the current sugar prices.

Contribution from co-generation business stood at 5% of total revenues at Rs. 149 million. For the 9 months, this segment has

contributed 18% of total revenues at Rs. 1.53 billion compared to Rs. 1.11 billion in the corresponding period of last year.

Our chemical/ethanol business continues to remain under pressure and witnessed subdued growth on the back of the increase in price of raw materials without corresponding increase in the realizations. Revenues from this business for the quarter stood at Rs. 105 million thus contributing to 3.5% of total revenues. During the 9 months, revenues from this division stood at Rs. 259 million contributing to 3% of total revenues. EBITDA was higher at Rs. 468 million compared to Rs. 115 million in Q3 FY08. In 9 months FY09, EBITDA increased by 73% to Rs. 1.6 billion compared to Rs. 929 million in the corresponding period last year. We believe improvement in our performance is significant due to low cost inventories, favorable sugar pricing and an improved contribution from the co-generation business.

Our interest cost increased to Rs. 229 million in the quarter under review due to higher working capital need on account of increased sugar prices. Profit after tax during the quarter increased to Rs. 111 million compared to a loss Rs. 235 million in the corresponding period last year. Consequently, for the 9 month period, it was higher at Rs. 423 million compared to a loss of Rs. 40 million last year. As far as our balance-sheet is concerned, our term debt as of June 30th, 2009, stood at Rs. 5.94 billion.

As mentioned in our earlier conference call, we foresee containment of interest going forward by swapping our high-cost loans with loans sanctioned by Sugar Development Fund, which are at an interest rate of 4%. The Company has already received a sanction of Rs. 1.47 billion from the Government of India. Until now, the Company has received disbursement to the extent of Rs. 1 billion and the balance is expected to be disbursed by September 2009. The undisbursed portion of Rs. 470.5 million shall be utilized for repayment of term loans and for our working capital needs. These on a broad level are our financial numbers.

Let me now hand over the call to Mr. Gautam Goel to talk about the operations of the Company.

Gautam Goel

Good evening everyone. As all of us know that the sugar production in India has been lower by about 35%. However, within the current scenario, Dhampur has been able to have one of the lowest drops in crushing compared to the previous year's level. Also, the location ability and efficiency of our mill have enabled us to post a relatively better recovery rate for the season. Apart from this, we capitalized

on the situation wherein the Government of India has sanctioned import of raw sugar without any re-export obligation until March 2010. We anticipate a profitable opportunity in importing raw sugar and refining it in our refineries. We have a capacity to refine about 1,700 metric tons of raw sugar per day in the off season. Our past experience will hold us in good stead and help us maximize this opportunity. As mentioned earlier during the call, Dhampur has already purchased 1.53 lakh tons of raw sugar and we are exploring the possibility of contracting additional quantities.

Earning from the sugar segment improved on account of higher sale of low cost inventories at better realizations. In Q3 FY09, the Company sold sugar at an average realization of Rs. 24.5 per kg compared to Rs. 14.38 per kg last year. The sugar business contributed to 93% of overall PBIT. For 9 months, this division contributed to 28% of PBIT at Rs. 608 million.

Our co-generation segment is showing noticeable growth on the back of enhanced power export capacity at our Dhampur facility from 60 MW to 80 MW. Our total capacity now stands at 145 MW with 80 MW of saleable power. We believe this division will add to the overall earnings in good times and also provide a sustained cushion to offset the cyclical nature of the sugar business. I would like to add here that Dhampur is currently modifying its multi-fuel boilers at its Asmoli and Dhampur plant with coal feeding and handling systems which are expected to be completed in September 2009 and enable us to generate power even during the off season. PBIT contribution for the quarter from this division stood at 2% at Rs. 8 million compared to a loss of Rs. 10 million for last year. For 9 months, PBIT from this business stood at Rs. 437 million thus contributing to 38% to overall PBIT. The Company generated 2.77 lakh units in 9 months under review and sold power at an average realization of Rs. 3.20 per unit. The state grid increased the price of per-unit power sale from Rs. 3 to Rs. 4 from 1st of March, 2009 until May 2009 which aided performance in Q3 FY2009 and we are now back to realizing about Rs.3 per unit of power sale.

The balance PBIT contribution was on the chemical/ethanol business which stood at 5%. Earnings in this division were subdued on account of higher input price without subsequent improvement in realization. PBIT for the quarter stood at Rs. 17 million while for 9 months, it stood at Rs. 43 million. We expect our distillery business to perform better going forward given the higher prices of ENA, industrial alcohol and rectified spirit which is prevalent in the market. We continue to focus on targeting business opportunities from the chemicals, ethanol or rectified spirit segment that of a better margin.

On an overall basis, we are enthused by our strong performance and are confident of our ability to perform well going forward. Given the integrated nature of our business, we now rely on contributions from sugar, co-generation and chemical/ethanol to drive our business. I believe that we have built a strong operating platform making us well placed to deliver sustainable results and our outlook for future remains optimistic. Thank you for joining us on this conference call. We will be happy to answer any questions that you may have

Moderator

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Nirav Vasa from Gupta Equities. Please go ahead.

Nirav Vasa

With the hike in SMP prices, has there been any increase in the price at which levy sugar is procured by the government?

Gautam Goel

Currently the future years' levy sugar prices are yet to be decided but they definitely ought to go up. But along with that, what brings into mind, the North Indian mills are fighting a case against the Central Government for revision, accounting for SAP when it comes to levy price fixation. There was a Supreme Court judgment which basically said that the Central Government has to take SAP into account and not SMP. The government has not acted on that and a petition is pending in the high court mandating the government to act on that and they are hopeful for a favorable result on that too.

Nirav Vasa

Can you throw some light on the CAPEX that you have incurred for converting your boilers into coal-fed boilers?

Gautam Goel

The total CAPEX on that was Rs. 15 Crore and we expect to finish this by September 2009.

Nirav Vasa

Do you have any coal linkage and can you throw some light on what would be your coal consumption per day once both these boilers start running in full capacity?

Gaurav Goel

Basically, we don't have any coal linkage right now. We are studying the option of getting a coal linkage done. But as of now, we have based our calculations on imported coal with the prices which have come out. Each boiler of ours will consume about 550 tons coal per day. As of now, we are in the process of converting two boilers. We also have the option of converting a third boiler if it seems viable to do so in the future.

Nirav Vasa Could you throw some light on your power agreement with the government? As of now, we are just informed that the per-unit price has been increased by the government. So, how long do you think this increase in per-unit price would be effective?

Gautam Goel The power unit price was only increased for a period of three months, I think March to May 09 where they increased it from Rs. 3 to Rs. 4. It is now back to the old prices which are about Rs. 3.06 at this point. There is a proposal pending with the government that revised tariff for the year 2009 onwards is pending. To the best of our understanding, if the tariff gets accepted, then the price should be about Rs. 4.

Nirav Vasa I just wanted a general guidance on the sugar prices because as of now, around Rs. 25 per kg is the wholesale price of sugar in Mandi. Would it be possible for you to throw some light as to how high sugar prices can go? Do you think sugar prices at wholesale level can reach as high as Rs. 30 in the coming quarters?

Gautam Goel It is very, very tough to say right now but surely, we all believe that sugar prices should just stay buoyant. Exactly how high they all could go, it's very, very tough to say at this point of time. But sugar prices do seem to be staying firm right now.

Nirav Vasa A rally has been witnessed in the sugar prices. At what price can the government intervention come in as this is a very critical commodity? Any guidance you can give on that front?

Gautam Goel Personally, we don't think it's such a critical commodity. It's more critical in the eyes of the government than what it should be. But in today's case, one has to look at various factors, what is the production capability, consumption and import parity prices. So if you just focus on the fundamentals, then it should remain buoyant as Mr. Gaurav Goel has said. Beyond that, we wouldn't really want to expect too much on to what extent it can go up to or what would the government do.

Moderator Thank you Mr. Vasa. The next question is from the line of Vijay Sarda from IDBI Fortis. Please go ahead.

Vijay Sarda What is the total inventories that you are holding on to and its cost?

Gaurav Goel As of now, we have only reprocessed a part of raws. Our total inventory as of now stands at 1.41 Lakh tons as of 1st of July of finished sugar. And we also had as we all said, we have contracted for raw, out of that 0.90 lakh tons, 0.55 lakh came to India and the

balance will be in India by end of August. Its cost is Rs. 19,500 per tonne.

Vijay Sarda

Just coming to the state of monsoon currently, what part of your crop area will get affected and what kind of production impact will it have if we have delayed monsoon? Will that really have an effect? And secondly, if so what kind of erosion in crop yields can you see across your crop?

Gautam Goel

Monsoon effect will definitely be there on crop yield but one must remember that sugarcane is a resilient crop and it does tend to pick up. There have been some rains now but not to the extent that we would have liked. But let's hope for the best, these are early days. As of now, all we could say is that when we started the year, we thought there will be an increase in yield. Now we don't think the increase in yield will be to that extent, whether it will be the same as last year, lower, higher, it's still early.

Vijay Sarda

No basically, that was even my impression because sugar is a crop which needs water. So basically, irrespective of rain also, you have water in the belt where your sugar factories are located. So I thought it should not be impacted that much. But my perception is the yield might get impacted because if you don't have a monsoon the sugarcane crop could fail.

Gaurav Goel

You don't have a situation where sugarcane crop fails. It depends on different farmers' capability to irrigate. In north India, the electricity situation is very grim. So it depends on the financial ability to how much of diesel they can put in. So yields do get affected but there are no cases of failure.

Vijay Sarda

When do you expect the sugar season to start again? Will it get delayed on account of this or will it start by October?

Gaurav Goel

See, we have two contradictory situations. Crops should theoretically start late but then we have to also look at the competition that we will face on the Jaggery unit. We do believe that there would be an interest from the government side that the factory starts earlier looking at the condition of sugar inventory. So all these factors will play an important part in deciding when the factories will start. Again, I don't think there would be a much delayed start. I mean it wouldn't make that much of an impact one way or the other.

Moderator

Thank you Mr. Sarda. The next question is from the line Aashish Uppanlawar from Share Khan. Please go ahead.

Aashish Uppanlawar What were the sugar and power volumes sold in Q3?

Gaurav Goel Total volume of sale of sugar in Q3 is 1.05 lakh tons. Our total power supply to the grid was 0.25 lakh MW.

Aashish Uppanlawar What is the stock of white sugar that is available with us as of now?

Gautam Goel 1.41 Lakh tons.

Aashish Uppanlawar Is this excluding the raw sugar that you have.

Gaurav Goel Yes, as we all had said, we all have got approximately 1.30 lakh tons of raw which is available with us, out of which a part will be reprocessed by September '09.

Aashish Uppanlawar What is the average cost at which we have procured this raw sugar?

Gaurav Goel About USD 355 at port.

Aashish Uppanlawar Will the refining be over by the end of this year and the entire raw will be in stock as white?

Gaurav Goel We have capacities to refine so depending on how the international market and domestic market behave it will continue to contract more raw sugar and continue to toll.

Aashish Uppanlawar Are we looking at a scenario where you would basically be looking at utilizing the entire raw sugar capacity in the next year, I mean are we intending for that.

Gaurav Goel We are gearing up for that. If the opportunity presents, we will definitely make use of that.

Aashish Uppanlawar The white sugar converted will be sold next year only, not this year

Gaurav Goel Yes. See as we were saying that a part of it we will do by September '09, so out of this, you should expect about a third of it to be sold by September '09 and the balance would be sold in FY010.

Aashish Uppanlawar What kind of drop, rather improvement in production of the manufactured sugar are we looking at in the next sugar season considering the scenario that we have as of now known to us, as far as the monsoons and the production of sugarcane is concerned?

Gaurav Goel We are not bullish; I mean we do believe that the numbers will come down from the initial estimates. The initial estimates were 18 to 19

million tons but our internal estimates are that it will be more between 16 to 17 million tons.

Aashish Uppanlawar What about Dhampur's estimates for our Company as far as the sugarcane that would be available to us?

Gaurav Goel As Mr. Goel pointed out earlier, the point remains how much of it will be from raw, how much it will be from cane, I mean we could end up producing 5.0-6.0 lakh tons of sugar to maximize our refinery capacity. But from cane, we anticipate in normal circumstances, about maybe 5% to 10% increase at best.

Aashish Uppanlawar So, this would basically be all the UP based mill is this the situation that you are looking at as of now?

Gaurav Goel That would be a fair assessment.

Moderator Thank you. The next question is from the line of Gautam Mathur from Tata Securities.

Gautam Mathur I know it's a little difficult to comment on monsoons but could you comment on it as far as the area under cultivation is there.

Gaurav Goel We have seen a marginal increase in the area under cultivation keeping in mind the reduction in Ratoon crop. There is about a 5% to 10% increase in the overall area under cane.

Gautam Mathur In the last concall, you had said that around 55,000 tons of raw had been contracted for USD 300, is that correct?

Gaurav Goel No, that was done at a price of \$330 on an average.

Gautam Mathur Okay. So, this time, the rate is slightly higher because prices would have moved up globally also.

Gaurav Goel Absolutely, the global prices have seen an upward trend in pricing. It is mainly as Brazil is not showing us the crop that we had thought it would. Secondly the added shortage that India might have due to these monsoons has really brought the global prices up.

Gautam Mathur Okay. Lastly I had a question on the depreciation this quarter. It is about 11.2 Crore and last quarter it was 23.2. So I just couldn't understand why that is so.

Gaurav Goel Basically, we all had clarified this in our earlier results. What we did was that because the power plant runs mainly for the six months

which is during the season time, so we charge the power depreciation during the quarter it runs. That is why you will always see that the first two quarters will have higher depreciation than Q3/Q4.

- Moderator** Thank you Mr. Mathur. The next question is from the line of Ashish Gupta from Kotak Securities. Please go ahead.
- Ashish Gupta** At what price have you contracted 0.96 tons?
- Gaurav Goel** The average price for this is about USD 380.
- Ashish Gupta** That's an FOB price?
- Gaurav Goel** That is a CIF price.
- Ashish Gupta** So, for the FOB, how much I have to include? Is that around USD 40 to USD 50?
- Gaurav Goel** Factory gate, about Rs. 2000.
- Ashish Gupta** According to the release, you have produced 0.01 lakh tons in this quarter and you have sold around 1.05. So according to me, inventory as of date should be around 1.22. In addition you have also reprocessed 0.18 tons. But in the press release, it's just showing around 1.4 Lakh tons. So there has been some sort of mismatch on the number.
- Gaurav Goel** If you add 1.24 plus 0.17 it will come to 1.41.
- Ashish Gupta** No sir. I think 2.26 plus 0.01, comes out to be 2.27, you have sold 1.05 so that comes out to be 1.22, plus if I include 0.18 in this.
- Gaurav Goel** It is 1.41 Lakh tons. So it is just about there.
- Ashish Gupta** You have just incorporated the Singapore subsidiary. I want to know the details on any further import of raw sugar there. Shall we expect that there would be any sort of benefit on the price front?
- Gautam Goel** See, the Singapore subsidiary has been incorporated keeping in mind it enables us to block a certain price of raw sugar in the event the futures market goes down. The final process of account opening and all that is in the process.
- Ashish Gupta** What are current prices of raw sugar and white sugar at the international front?

Gautam Goel As of now, the raw prices trading are at about USD 420 CIF and white prices are at about USD 525-540 CIF.

Ashish Gupta For around USD 100 premium?

Gautam Goel Yes. It would be about that much.

Ashish Gupta Any view on the Brazil production?

Gaurav Goel As of now, the latest that we have heard is that it should be in the range of 31 to 32 million tons. Out of that, 20 to 21 million tons would be the exportable amount out of Brazil. These are the last numbers that we got from the people in Brazil.

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

Jehan Bhadha My question is on the monsoon front again. I just wanted to understand whether the monsoon will affect the yields as well as the recovery? Will both get affected?

Gaurav Goel Jehan, the rains will have a very negative effect on yield. On the recovery front, a normal course in event of lower rains is that the recovery tends to go up. That has been a general sort of experience over last many years. But there are a lot of other factors which are also important when it comes to recovery.

Jehan Bhadha According to you, the recovery rate should definitely improve closer to 10%

Gaurav Goel No, it depends. If we start early for whatever reason like pressure from Jaggery or some government sort of inclination to start early, then again you could have a lower recovery as the crop doesn't get enough time to mature.

Jehan Bhadha What is your call on UP's productions figure for the next year?

Gautam Goel Well, we think that at best it will be a 10% increase but between 5% and 10% is what our assessment is right now.

Moderator Thank you. The next question is from the line of Ami Shah from Asset Alliance Securities. Please go ahead.

Ami Shah My question is basically related to raw sugar. Our imported price stands at somewhere close to USD 380 per ton, right?

Gautam Goel Yes, the USD 380 is for the one that we have done in this quarter.

Ami Shah Can we take the exchange rate of close to 48 per USD?

Gautam Goel Yes.

Ami Shah So your landed cost comes to around Rs.18,240 per ton.

Gautam Goel Right.

Ami Shah To that you add your port handling and other charges that could amount to, close to Rs. 2,000?

Gautam Goel Rs. 2,000 would be port handling plus the transportation up to the factory.

Ami Shah Right. After coming up to the factory, how much is the extra costing you would add when you refine sugar?

Gautam Goel You should assume that to be around Rs. 2,500 per ton, over and above the Rs. 2,000.

Ami Shah So, the costing of the entire per-ton would be around Rs. 22 to Rs. 23?

Gautam Goel Rs.23.

Ami Shah Currently our ex-factory realization is close to 24.5?

Gautam Goel Yes.

Ami Shah When you compare this vis-à-vis the domestic production that we have, with the current cane prices just an approximate estimate, how much do you think per-ton or per-kg of domestic sugar would cost?

Gautam Goel This Rs. 23 was the sugar that we already purchased. If I was to purchase now, that will probably be 24.5. In the current year, what is the cost of cane going to be, what the recovery is going to be.

Gaurav Goel See the main thing to think about is what would be the recovery that you will get out of cane. So, according to last year's trend, it would be at a price of around 1,800 per ton of sugarcane.

Ami Shah Out of the contracted sugar that we have, total raw sugar is 96,000 ton. So has the entire sugar been contracted?

Gaurav Goel Yes, we have done a total contract of 1.53 lakh tons. I want to correct, I had said earlier that the average price is USD 355. Our average price for the total raw is USD 360.

Ami Shah It is USD 360, plus you add freight to it that becomes USD 380.

Gaurav Goel Plus you add to it Rs. 4500 of conversion over-and-over with USD 360.

Ami Shah Okay, so the entire 1.53 lakh ton has been contracted close to USD 360. If you take inclusive of freight, it would be close to USD 380-390.

Gaurav Goel If you take freight up to the factory, yes. So you add USD 40 for the freight up to the factory. Then you add about USD 45 over that to reprocess it into whites.

Moderator Thank you Ms. Shah. The next question is from the line of Sanjay Satapathy from Merrill Lynch, please go ahead.

Sanjay Satapathy Why the sugar price in India has been fairly stable for last two months though international prices are going up so sharply. India's price is underperforming international prices. What could be the reason for that and how long this kind of a trend will sustain?

Gaurav Goel The reason could be many folds. Also, I guess one of the principal reasons will be the high releases by the government to keep a certain balance on prices. In the current year, we had an opening stock of about 8.5 Million ton. When we start the next crop 2009-10, we really will be starting with close to 0 opening stock. So our firm belief is that the Indian prices will have to be a reflection of the international prices.

Sanjay Satapathy Is it fair to conclude that government has been very effective in controlling the price at a certain level by administering the released mechanism? Is that what the conclusion is?

Gaurav Goel That we believe to be true here.

Sanjay Satapathy So it means that going forward even if the domestic stock level goes down to a low level, still government can be successful in controlling the price at a particular level?

Gaurav Goel No I do not know about that. If you have to import sugar to meet your requirements, then you have to have an import parity price.

- Sanjay Satapathy** That is the risk that you are taking in terms of booking the raw sugar while the government has a totally different agenda.
- Gautam Goel** We have to realize that if India has a shortage of sugar, the only way that the shortage can be met up is by getting in raw sugar.
- If people like us or any of the other sugar millers was to get in raw sugar, they will only import raws if it makes sense. If there is an arbitrage between the raw price and the India price, the government will have to play a two prompt strategy out here. They have to decide whether they want to keep sugar prices in check artificially or they want India to have sugar stocks. So I think that the government will also have to play a sort of a balancing act in this seeing what the international price of sugar is.
- Gaurav Goel** One has to also keep a prudent view as to what qualities of raw sugar at what prices you are comfortable getting.
- Sanjay Satapathy** Right, so are you seeing some kind of a deceleration in raw sugar contracting from India because of the decline in the rate between international price and domestic price?
- Gautam Goel** Yes, India is one of the major reasons for the bullishness in the international market. There is a point at which the international prices go up, and then there is no buying, then it comes down and there is a certain amount of buying, then support. The Indian prices are also gradually moving up, so I think you will continue to see this kind of volatility happening on both sides.
- Sanjay Satapathy** One last question is relating to your branded sugar. You had an average realization of Rs. 24.5. How much of it can be attributed to your branded sugar sales. What is the exact premium at which branded sugar was sold by you?
- Gaurav Goel** 47% of our total sugar sale is our refined sugar which is not branded
- Sanjay Satapathy** Okay, but what is the price premium?
- Gaurav Goel** Price premium is about Rs. 700 per ton.
- Gautam Goel** Branded sale is negligible.
- Sanjay Satapathy** If it would have been normal sugar than probably you would have sold it at Rs. 23.8 per kg instead of Rs. 24.5?
- Gaurav Goel** Yes.

Sanjay Satapathy How much of the total sugar sold by you during this quarter was levy sugar?

Gaurav Goel 8000 ton was levy sugar for the quarter.

Moderator Thank you Mr. Satapathy. The next question is from the line of Sanjay Manyal from ICICI Securities. Please go head.

Sanjay Manyal Is there any possibility that Brazil could produce more than 35 Million tons, so we can have an excess supply and then prices may go down.

Gaurav Goel 35 million, I do not think is possible now. They have already seen certain reduction in the month of June vis-à-vis because of poor rains and everything else. The general feeling was about 33 or 34 million tons before the crop started and now on account of weather conditions and poor maintenance in certain plants in Brazil, the sort of consensus that seems to be emerging is say 31 or 32 Million tons.

Sanjay Manyal What would be the domestic production in 2010? Earlier our estimate was it will be around 18 Million ton.

Gaurav Goel As of now, we believe at best it could be 17 Million ton

Sanjay Manyal Last quarter we have reported a top line of Rs. 109 Crore and there has been a significant growth in top line, but we have seen a dip in bottom line from Rs. 17 Crore to Rs. 11 Crore. Now I can understand that we were holding the low cost inventory last quarter but realization has also moved up by around Rs. 4 this quarter. So there is a kind of mismatch

Gautam Goel Yes, Basically the sugar side has shown us all the profits. In the last quarter, most of our profits came from our power business. This quarter our power sales were lower due to high cost of fuel, so that is why it did make sense for us to make more power. That is why you are seeing the slight mismatch in profit numbers.

Sanjay Manyal So, if I assume that our prices will remain around Rs. 24 to Rs. 25 in the next quarter, will we see a significant jump in profits?

Gaurav Goel Profits should stay stable going forward.

Moderator Thank you Mr. Manyal. The next question is from the line of Mr. Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera You had mentioned about installing the boilers which can utilize coal and you can operate the captive power plant for the entire year. In such a scenario, do you see an increase in the number of units that you will be exporting in FY10 over FY09?

Gaurav Goel Definitely we see an increase in the number of units. Our boilers were already fuel boilers. We had just added the coal handling equipment and the coal firing equipment on the boilers.

And we definitely see opportunities, both on accounts of the raw sugar the reprocessing opportunity that would be presented to us and hopefully, the way the government seems to be moving on account of opening of the power sector, if they allow us to undertake power trading in the off-season, then we could operate our plants 330 days.

Sachin Kasera In terms of the numbers of units, assuming that you crossed 10% more and you are able to use coal, what is the number of units that you plan to export in FY10 as compared to FY09?

Gaurav Goel See, the increase from the conventional co-generation cycle would be about 10% only but it is a little bit more complex, because one has to see if we are going to be tolling raw sugar then our power export will increase. In the event the UP government increases its price to Rs. 4, the power export will increase. So there are a lot of variables at this point of time. I think we will be in a better position to answer this question at the end of next quarter.

Sachin Kasera But what would be your cost of power from coal at this unit?

Gaurav Goel Today at the current level of international coal available, we are estimating the cost to be about Rs. 4.

Sachin Kasera So in that case only if you are able to sell it to the merchants it would then become viable in the current scenario.

Gaurav Goel Yes.

Sachin Kasera Considering that the working capital requirements are going to go up because you are looking at importing more raw sugar and also I believe the SAP would go up in the coming season, so do you actually foresee that we have been able to really have some saving in interest as you said earlier or could we probably see a flattish to slight upward trend in terms of the interest cost for FY10?

Gautam Goel No, we all just believe that our interest cost going forward will come down, that is basically because we are also repaying our term debt. Our term debt is coming down plus all the raw sugar that we all have imported is to be carried at a cost of about 4% per annum in dollar terms.

Sachin Kasera You intend to process more or less all the raw sugar that is contracted until date in FY09.

Gaurav Goel We would probably process about 50%.

Sachin Kasera Okay and in terms of sales, you said almost around one third of contracted would be sold in FY09.

Gaurav Goel Yes.

Sachin Kasera Okay and any idea in terms of the raw estimate? In terms of how high the prices SAP could go up to, the prices that you may have to pay for cane in FY10?

Gaurav Goel See, as of now, cane price is extremely tough to predict at this point of time but surely the cane prices would be higher than last year.

Sachin Kasera Just one question regarding consolidation, in terms of raising equity, any of these two things you are looking at?

Gaurav Goel As of now, we have no plans for that.

Sachin Kasera Are you comfortable with the current debt equity?

Gaurav Goel Our debt equity as of now is about 1.6:1. We are planning to bring it down to about 1.2. What we believe, we can bring it down by early FY10.

Sachin Kasera You said, by FY10.

Gaurav Goel Yes, by March FY10, we all are hoping to bring it down to 1.2.

Sachin Kasera Without any fresh equity raising?

Gaurav Goel Yes

Sachin Kasera And you are not doing any acquisitions right now.

Gaurav Goel None at this point in time.

Moderator Thank you Mr. Kasera. The next question is from the line of Satish Bhat from Anvil Asset Management. Please go ahead.

Satish Bhat Currently we imported 1.5 Lakh tons of raw. Is it possible that next year also we will be able to import another 2 Lakh tons?

Gaurav Goel Absolutely, we have an opportunity; we have the capability and the capacity. So 2 Lakh tons is not a number which is out of reach, it may even be more.

Satish Bhat So, may be that means during the season and off season, we can do around 3 Lakh tons on a full year basis.

Gaurav Goel Very easily.

Satish Bhat This year the distillery profits were quite down. On a normal circumstance is it possible that you can make Rs. 30 Crore EBITDA on distillery on an annual basis which you did in FY07-08?

Gaurav Goel See out here we have to realize one thing that the feedstock is ours itself. So if it makes better for me to sell the feedstock than to make the chemicals or the alcohol, I will do that. So then the profits would not come into chemical side but would come on the sugar side, so we will have to play that arbitrage and we will have to see the price of the finished product vis-à-vis the price of our feedstock.

Satish Bhat Regarding making your boilers coal efficient, is it possible that you may only do this if you get license to sell your power on a merchant basis?

Gaurav Goel See basically one of the fundamental reasons was on account of the raw sugar reprocessing. First, we saw the bagasse prices being very high and next year we see a big opportunity coming in terms of raw sugar reprocessing, so we all have the capability of continuing to toll raw sugar in a cost effective manner. That gives us a single biggest advantage there, so we can sort of do 3.0 to 4.0 lakh tons of raw. Now the bonus here would be, if you can sell power and merchant power and the way the current thinking of the central government seems to be, we are quite hopeful in that direction.

Satish Bhat How fast do you think these things will get sorted out?

Gautam Goel If the government calls, it could get sorted out tomorrow. They could take couple of weeks to months but the way the situation seems to be unfolding, I think we are on the right track.

Moderator Thank you Mr. Bhat. The next question is from the line of Aman Sonthalia from Suvridhi Capital Markets Limited, please go ahead.

Aman Sonthalia Actually in the government data, the government sold an opening stock of 100 Lakh tons and the next year production target is about 170 to 180 Lakh tons. When I talk to the industry people of different states, the expected figure for the year 2009-2010, is in between 125 to 145 Lakh tons and also the opening stock as per my view is not more than 75 to 80 Lakh tons. What is your view on this?

Gaurav Goel Aman, you are definitely a lot more bullish than we are but we believe the figure is about 8.5. We believe the production to be between 16 and 17 million tons.

Aman Sonthalia Actually the yield will be very low in Uttar Pradesh and the area has also come down by around 6%, so I think the production in UP and in Maharashtra and Tamil Nadu and Karnataka and Andhra and in all the states when I talked to the people, will be less compared to last year.

Gaurav Goel Well, these are early days, lets see what happens but if there is a greater production drop then that does mean more opportunity to toll raws and we are fully geared up for that.

Aman Sonthalia What is the maximum quantity of raw sugar the Company has in the current year and in the next year?

Gaurav Goel Our capacity to toll at this point of time is about in excess of 4.0 lakh tons per annum. We believe we probably have the second largest capacity in the country. Now it will depend exactly on the position of domestic prices and the international prices.

Aman Sonthalia If everything is favorable, then what will be the maximum?

Gaurav Goel In the calendar year 2009-10, we could do a maximum of 4.0 to 4.5 lakh tons.

Aman Sonthalia And in the current year?

Gaurav Goel In the current year, we have done about 0.18 lakh tons and we could do about just 0.70 lakh odd tons more.

Aman Sonthalia What is the total debt of the Company including the short-term debts?

Gaurav Goel As I said earlier, total term debt as on date is Rs. 594 Crore.

Aman Sonthalia What is the short-term debt?

Gaurav Goel Rs. 215 Crore.

Aman Sonthalia Is Eastern UP more impacted than Western UP as far as drought is concerned?

Gaurav Goel See, we believe that the drought impact could probably be similar all across but the area under cane was marginally higher in western UP vis-à-vis eastern UP.

Aman Sonthalia That is because the irrigation facility is not there in Eastern UP as compared to Western UP.

Gaurav Goel Yes now, what you are saying is true. The impact would be higher on drought.

Aman Sonthalia In Mansurpur, how will we manage the boiler as far as raw sugar is concerned?

Gautam Goel See even out there we will basically do a blend of coal and bagasse in boiler. Our Asmoli unit is capable of running the boiler 100% on coal.

Aman Sonthalia Okay and in Mansurpur, you can use both coal and bagasse?

Gaurav Goel No we can use coal and bagasse everywhere but in Mansurpur, we will do a blend of coal and bagasse while in Asmoli, we may just use coal.

Aman Sonthalia There will be no problem as far as raw sugar is concerned in the off-season.

Gaurav Goel Absolutely.

Moderator Thank you Mr. Sonthalia. The next question is from the line of Rishab Bothra from B&K Securities. Please go ahead.

Rishab Bothra My query is regarding the rectified spirits, ENA, molasses, and bagasse prices. I want to know how the prices are moving out and what do you expect on that front, what kind of prices we can expect for RS, ENA, molasses, and bagasse?

Gaurav Goel See, the current price of R.S. as of now is at about Rs. 28 per liter. The ENA price is about Rs. 3 higher. Going forward as of now it seems that price in the range of Rs. 28 to Rs. 30 for R.S. seem to be

the prices as there is also going to be availability of imported alcohol coming in the country.

Rishab Bothra

There was a time when the prices went up to Rs. 35 and the industry was expecting those prices to be sustainable.

Gautam Goel

See, basically what happened then was that a lot of grain based alcohol started coming into the market. So, we believe that if there is a continuous inflow of grain based alcohol then probably the prices could get capped between 28 and 30.

Rishab Bothra

What are the current prices of molasses and bagasse?

Gautam Goel

Molasses is between about Rs. 400 and Rs. 450 a quintal, Rs. 4500 a ton for molasses. Bagasse prices are not available but we have sold bagasse as high as Rs. 2700 a ton.

Rishab Bothra

One thing regarding that cane acreage and the sowing pattern. We have been discussing it with some of the farmers and some of the cane managers told us that the area under cultivation in Western and Central UP has gone down by 10% to 15% in many parts because of the lower proportion of ratoon. So, you are saying that the area has increased which means that is contradictory.

Gautam Goel

Different factories have different situations. What I have said is in our factory area, our data indicates that it has been about 10% increase. There are some factories which are reporting a drop in area. When we started the survey, there was general consensus in UP that the cane area would be marginally higher than last year for pan UP. Everybody was banking quite heavily on considerably improved yields because last year the yields were fairly low. This year because of poor monsoons, effect of yields could again be in question. Cane as I mentioned earlier is a very resilient crop. In the event, if the rains catch up you could see the cane crops reviving.

Rishab Bothra

Is there any risk on the crops catching some diseases because of high humidity and low rain because that can also affect yield in a bad way.

Gautam Goel

Normally because of the peak area there is a time when the cane crop is more susceptible to diseases. In the summer month because of excessive heat, crops are fairly pest free. At this point of time chances of getting diseases probably would be a little lower but I think the monsoon will be the most worrisome aspect at this point of time.

Moderator Thank you Mr. Bothra. The next question is from the line of Nadeem Parkar from Dolat Capital, please go ahead.

Nadeem Parkar Can you give the inventory of bagasse that you have at the moment.

Gautam Goel See, the inventory of bagasse we have is basically more for internal use for blending with coal. We have about close to 20,000 tons of bagasse available.

Nadeem Parkar What is the cost per ton of coal that you incur for purchasing the coal?

Gaurav Goel Well as of now the current costing that we are getting is in the range of Rs. 4,500 to Rs. 5,000 a ton for imported coal with a calorific value of about 5,400 kilo calories.

Moderator Thank you Mr. Parkar. The next question is from the line of Anup Ranadive from Tower Capital, please go ahead.

Anup Ranadive On the monsoon front, you mentioned that the current year yields might get impacted because of the deficient rainfall. My question is on the next year sowing. When would that happen and would the deficient rainfall have an impact on that?

Gaurav Goel There is sowing in North Uttar Pradesh and the most amount of sowing happens from February to April-May. There is marginal sowing in October-November period. Sowing area under cane will increase next year as in greater sowing will depend upon the prices of sugarcane and the prices of other crops. One of the biggest worries that we would have now is because of the paddy crop being substantially affected. If the paddy prices move up then you could see a greater competition on that account.

Anup Ranadive Would that mean that the current deficient rainfall would not have any impact on next sowing?

Gaurav Goel No, it will be having indirect impact, and direct impact would be the prices of paddy shoot up then we could see a competition with paddy on account of cane sowing.

Anup Ranadive When India started importing raw sugar, the prices were close to say 13 to 14 cents per pound and the current is in the range of 18 cents per pound and since the last month or two, India has not imported much of raw sugar and the prices are still continuing to be high. So, in the event that India has to import more raw sugar in the future, would the prices move up?

Gaurav Goel See, India has substantial quantities of raw sugar that got booked last month. I think our data suggests that there was a great spate of Indian buying when the prices were above USD 380.

Anup Ranadive Right.

Gaurav Goel After that the buying has tapered off. Now, we believe India perhaps is the single largest bullish factor in the international pricing. So basically that is a cat and mouse game. You have a situation when the international prices move up; the domestic prices have not moved up, there is no buying. It comes down a little bit and then there is a sort of spate of buying from India. But the fundamental situation remains fairly bullish.

Anup Ranadive I am just trying to understand the arbitrage which you mentioned between raw and white. At the current price of say USD 420-430, the landed price in India works to say Rs. 20-21 and adding up another Rs. 4 which includes port, transportation, and processing charges, the ex-factory cost, production cost works out to Rs. 25 which is slightly higher than the current realization. So, going in the future when the prices of raw sugar are expected to move up, the only way the arbitrage should work is that the domestic prices move up, but you mentioned that the government has been effective in controlling the prices about Rs. 24-25 per kilogram. In that event in the next year do you think that the arbitrage will still function as we have seen in the current season?

Gaurav Goel You will have space, you will have dips, you could see buying happening those days and you will also see a continuous increase in the domestic prices in the event the international prices remain at this level.

Gautam Goel See you have to realize that out here there are two things which have to happen. Either the global prices have to come down or the Indian prices have to go up. As what you are saying rightly is that the prices have gone up. That has also gone up because people are expecting India to import more sugar. So, out of two things, one thing will happen. Either the Indian prices will go up or the global prices will come down.

Anup Ranadive In your view what could be the key risk for the sugar prices to move lower. Just theoretical, we know that the production is going to be less again in India and Brazil is not producing much of sugar as earlier expected. So in your sense what is the key risk for the sugar cycle to again turn downwards?

Gaurav Goel Suddenly people stop consuming sugar or there is for some unforeseen reason, the domestic international prices come crashing down.

Moderator Thank you. The next question is from the line of Jay Prakash from ULJK Securities, please go ahead.

Jay Prakash You import raw sugar and convert it to white sugar. So does this sugar goes into market as a free sugar or is there something that goes into levy also.

Gaurav Goel No, it is all free sugar.

Moderator The next follow up question is from the line of Aashish Uppanlawar from Share Khan, please go ahead.

Aashish Uppanlawar I want to understand what kind of stocks are we likely to carry to the next season. I mean the kind of sugar that the government has been forcing us to sell in the market, how does it pan out for closing stocks for this year?

Gaurav Goel Again, it depends on when we start the production. I mean if we start early October, then we could have about 0.8 lakh tons to 0.90 lakh tons of raw sugar which we can process into white sugar which we will be doing on a continuous basis. In the event the factory starts a bit later, say early November then this figure could come down.

Gautam Goel You should just assume that 1.2 lakh tons of cane sugar that we have is what we will sell in this Q4. The raws that we have would be in stock for us in the opening of FY09-FY10.

Aashish Uppanlawar Okay another thing on debt program that you mentioned that you are planning to bring it down to about 1.2. Basically the internal accruals would help to bring it down. What is the cost of debt as of now and what would it be after whatever SDF loans that you are planning to bring in. Any reduction in the cost of debt that is still with you?

Gaurav Goel Yes, 7.3% is our current cost of debt. We hope to bring it down to about 6.8% by March 2010.

Aashish Uppanlawar Okay, and in the event that the next season turns out to be good and there are big amounts of cash accruals in the business. The endeavor would be to bring that down to as low a level as possible.

Gaurav Goel Yes, see our target is to have a debt-equity lower than one.

Moderator Thank you. The next question is from the line of Jasdeep Walia from Kotak, please go ahead.

Jasdeep Walia I want to have your views on the port capacity available in India for import of raw sugar and your view on the refining capacity available in India for refining a raw sugar in to white sugar?

Gaurav Goel See, basically port capacities, I do not think will be a problem because for North India normally the ports in use are Kandla and Mundra and ports there have adequate capacities. We do foresee there could potentially be some problems in logistics on account of freight movement of sugar from the port to the factories.

The other question India's processing capability could be anything about 4.5-5 million ton but the basic issue is one big area, which probably will not be able to maximize this capacity in Western India, I mean where cooperative sector is there. We could potentially do a million tons but they have not contracted any sugar. The margins in West India are not at parity. So, 3.5 - 4 million tons could get tolled in this situation. South, north India where the refinery at the port Haldia, all the other then put together could do about 4 million tons.

Moderator Thank you Mr. Walia. The next question is from the line of Achal Lohade from JM Financial, please go ahead.

Achal Lohade You said that you would be selling the refine sugar from raw sugar in the next year and you will be selling only the cane based sugar in the next quarter?

Gaurav Goel No, I mean I was just talking about the stock that we will be holding. I was asked about what will be our opening stock for next year. Even for this quarter it will be a combination of our cane sugar and of our raw sugar.

Achal Lohade Right, actually my question was whether this refined sugar is considered as part of released mechanism. .Is it covered in the released mechanism?

Gaurav Goel The government gives additional releases for the refined sugar.

Achal Lohade If one looks at sugar year 2007 where in the beginning of the year we were expecting about 20-21 Million tons and we ended up with 28 Million tons. So what is your sense? Why did we go wrong on the estimates and can we go wrong on the estimates again in the current year? Can there be upside? Even in the last crushing season in the beginning we were expecting 19-20 Million tons and

we ended up with 14.7 Million tons. So, do you expect yield to surprise us? Where had we gone wrong in 2007?

Gautam Goel

In 2007, if my memory serves me correct, the estimates were about 23-24 Million tons. And of course, the yields were higher. There were no diversions that year and may be the cane area was further extended. There was lot more cane available than what people assessed. In the last year, one of the biggest reasons the people did not anticipate such a big drop was the yield and the sucrose content both had. If one looks at the unrealistically low sugar content that was there last year that itself lost about a million odd ton in the country.

This year I think the people have become a lot more cautious and also are spending a lot more effort in collecting the cane data, many factors are unforeseen which do tend to play a big role, the diversion impact, the Jaggery prices at the current movement are ruling higher than sugar prices. So we are all anticipating a high impact of diversion. In the event the diversion impact is lower then we could see increase in cane sugar supply. We do not see that as a realistic situation. The yield is a question mark. As of now we are not hearing any bullish sort of sentiment on accounts of improvements in yield. If there is anything they have only been dropped down. Recovery is still opened but all we know is that if we start early then the recovery will not be as high as what it should be.

Achal Lohade

When is the hearing in Supreme Court and what is your expectation about SAP? When would that be announced?

Gaurav Goel

The hearing is on the 27th of this month in the Supreme Court for the previous case and the SAP should be announced I would think by at the end of September but that is just a guess from our side.

Achal Lohade

Will you be taking the raw sugar from Kandla port to the mills? What is the freight cost that is involved the transport cost from port to the mill?

Gaurav Goel

The transport cost is about Rs. 1,500 per ton. Yes, the transport cost of Rs. 500 basically includes the port handling and the storage cost at the port. So, about Rs. 2,000 is the cost to bring it from port to the factory.

Achal Lohade

Right and about the process cost?

Gaurav Goel

About Rs. 2,500 per ton.

Achal Lohade This is the net process cost, the actual cash flows?

Gaurav Goel Yes.

Moderator The next follow up question is from the line of Rishab Bothra from B&K Securities, please go ahead.

Rishab Bothra What are the current prices ruling for sugar as of now?

Gaurav Goel For our refined sugar, it is at about Rs. 24.8 per kg and for normal it is about Rs. 24.2 per kg.

Rishab Bothra What kind of quantum of sugar is being released for mass consumption for institutional category?

Gautam Goel There are no releases separately for institutional categories.

Rishab Bothra On the industry, we might be having some data on the same.

Gautam Goel No, we all personally believe that out of the total sugar about 70% goes to industrial use, 30% goes for household. In the industrial use, all the sweetmeat manufacturers and sweet manufacturers also included.

Rishab Bothra So, industrial use consists of hotel, cola, pharmaceutical, and FMCG players all such are institutional category right?

Gautam Goel It is also the sweet manufacturers you know like Haldiram's and all the other people, confectionary everybody.

Rishab Bothra So, can there be a possibility of charging a premium from these players and thereby keeping the price intact for common consumption. Is there is a possibility that government may allow such kind of....?

Gautam Goel I do not see how you can enforce a situation like that. We have been trying to tell the government that the impact of sugar on an average household is not that high. I mean the average consumption is about Rs. 3 to 4 kg, so couple of Rupees increase does not make too much of a difference there and that is the feeling that has been. Today the prices of pulses and everything are much higher and that makes a much larger dent than the sugar prices.

Rishab Bothra Right, but I feel apart from the sweet manufacturers, the government can also control the mechanism which I am foreseeing by stating

that all these institutional players have to take procure the materials from sugar millers only and not from the open market.

Gaurav Goel Well, they could. I mean, it is a good suggestion. I think one must put it forward.

Rishab Bothra I think this could be a possibility, so that the WPI or whatever index is there inflated on account of this issue and the whole issue of sugar industries being in losses may be recovered.

Gaurav Goel What you are saying can be a possibility but we have not heard of it as of now.

Rishab Bothra So, could you put this stage forward whenever you have an industry interaction?

Gaurav Goel Sure.

Rishab Bothra One thing more, you talked about that your refining cost is Rs. 2,500 per ton. I just want to confirm, does that include the wastage of raw sugar during the process around 4 to 5%?

Gaurav Goel No, that is all added in that cost of Rs. 2,500.

Moderator The next question is the follow up question from the line of Nadeem Parkar from Dolat Capital, please go ahead.

Nadeem Parkar Out of your four plants which are the power plants, that are coal fed, I just missed that.

Gaurav Goel The one at Dhampur and the one at Asmoli.

Nadeem Parkar They can run on 100% coal.

Gaurav Goel Right, the one at Mansurpur, we can blend coal.

Moderator Thank you Mr. Parkar. 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 sir.

Gaurav Goel Thank you, so much. On behalf of Dhampur, I would like to thank all of you for taking your time out for this conference call. If you have any further questions, please feel free to speak to us either by phone or by e-mail which is mentioned in the investor communication. You can also visit our website www.dhampur.com

and post any queries you have and we will get back to you as soon as possible. Thank you once again.

Moderator

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