

# Dhampur Sugar Mills Ltd

## Q1 FY20 Earnings Call

### Participants

- Prashant Biyani, 'Prabhudas Lilladher Private Limited'
- Gaurav Goel, 'Managing Director'
- Nalin Gupta, the CFO
- Akshat Kapoor, 'GM Finance'
- Vineet Gupta 'CGM Finance'

### Presentation

#### Operator

Ladies and gentlemen, good day and welcome to Dhampur Sugar Mills Limited Q1 FY20 Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. Before we begin, I would like to mention that certain statements in this call could be forward-looking in nature and are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated. Such statements are based on management's beliefs as well as assumptions made by information currently available to the management. As a reminder, all participant lines will be in the listen only mode.

And there will be an opportunity for you to ask questions after the presentation concludes. (Operator Instructions) Please note that this conference is being recorded. I now hand over the conference to Mr. Prashant Biyani from Prabhudas Lilladher Private Limited. Thank you and over to you, sir.

#### Prashant Biyani, 'Prabhudas Lilladher Private Limited'

Yeah, thanks. Hello everyone, on behalf of Prabhudas Lilladher, I welcome you all to Q1 FY20 earnings call of the Dhampur Sugar Mills Limited. I would like to thank the management of the Dhampur Sugars for taking the time out for today's call. From the management side, we have Mr. Gaurav Goel, the Managing Director; Mr. Nalin Gupta, the CFO; Mr. Vineet Gupta, Chief GM of Finance; and Mr. Akshat Kapoor, GM Finance.

I would request the management to discuss about the company's results and key industry trends for Q1 and then we can start with the Q&A Thank you and over to you, sir.

#### Gaurav Goel, 'Managing Director'

Thank you. Good afternoon and a very warm welcome to all at Dhampur Q1 FY20 earnings conference call. I would like to begin by sharing my perspective on the sugar sector, while discussing the company's operational performance following which Mr. Akshat Kapoor will take you through the financial highlights of the company for Q1 FY20.

For the current sugar season 2018-19, revised estimates suggest that sugar production to be around 32.9 million tons in India. The domestic sugar consumption stands around 26 million tons. Domestic sugar realizations are currently ruling around 33 per kg ex-mill.

We have crushed 12.82 lakh tons sugarcane during the Q1 FY20 as against 13.24 lakh tons in Q1 FY19. Sugar recovery is stood at 11.64% (net of B-heavy molasses) in Q1 FY20 as against 11.74% in Q1 FY19.

Overall, we are glad to report a healthy performance wherein all segments reported positive margins during the Q1 FY20. Sugar realization for Q1 FY20 stood at 32.33 per kg as against 28.12 per kg in Q1 FY19. Sugar sales for Q1 FY20 stood at 2.27 lakh tons including raw sugar sale at 0.59 lakh tons as against 1.81 lakh tons in Q1 FY 19.

In terms of inventories, the total inventory as on June 30, 2019 stands at 4.4 lakh ton valued at an average cost

of 29.65 per kg. Our ethanol chemical division performed well. The company sold 316 lakhs bulk litres of ethanol including 130.68 lakhs bulk liter of ethanol derived B-heavy molasses at average realization of 46.14 per liter during the quarter. The company the quarter also sold 15.47 lakh kg of chemical at an average realization of 53.1 per kg.

The company in this business continues to utilize its capacity to produce and sale ethanol, chemicals, ENA, rectified spirit that offer better margin. During the quarter ended June 2019, Dhampur in its power segment generated 15.20 crore units of power as against 19.76 crore units in same period last year and exported 8.14 crore units against 11.61 crore units in same period last year. The Average realization for the quarter is stood at 5.18 per unit as compared to 5.22 per unit in the same period last year. I would now like Mr. Akshat Kapoor to take you through the financial performance of the company.

Thank you.

## **Akshat Kapoor, 'GM Finance'**

Thank you, sir. Good afternoon and thank you once again for joining us on the call. I would now like to take you through the financial highlights of the company for the quarter ended June 30, 2019.

Our total revenues EBITDA and PBT for the Q1 FY20 stood at INR 949.77 crores and INR128.22 crores, and INR76.34 crores as compared to the revenue of INR736.91 crores, EBITDA of INR93.51 crores and PBT of INR48.72 crores in Q1 FY 19 respectively. Rise in PBT was primarily a result of improved average realization and higher ethanol sale with better margins with higher efficiencies. EBIT for all the segments were positive during the quarter. Our interest costs stood at INR34.01 crores during Q1 FY20 as compared to INR29.66 crores in Q1 FY19. Profit after tax stood at INR58.46 crores in Q1 FY20 as against INR31.66 crores in the same period in the last financial year.

Let me now take you through business wise performance.

For the quarter ended June 30, 2019, the sugar division reported revenues INR782.64 crores which contributes 69% of the total revenues as compared to 63.70% at INR591.2 crores in the same period last year. EBIT in this segment stood at INR21.58 crores as compared to the loss of INR26.25 crores in the corresponding quarter of the last year.

Revenues from ethanol chemical business for the quarter stood at INR156.96 crores as against INR137.73 crores in the corresponding quarter last year. EBIT for Q1 FY20 stood at INR52.85 crores as against INR55.11 crores in Q1 FY19. Going forward, we continue to focus on targeting this opportunity from the ethanol, chemical and rectified spirit segment that offer better margins.

During the quarter under review, power revenues stood at INR130.84 crores and EBIT for the quarter stood at INR51.37 crores as against revenues of INR147.93 crores and EBIT of INR60.15 crores Q1 FY19. Power realizations stood at INR5.18 per unit against INR5.22 per unit in the corresponding quarter last year.

The company has made repayment of long-term loan of INR32.45 crores during the Q1 FY20. The long-term loan as on 30 June, 2019 stood at INR674.52 crores.

These are our financial numbers on a broad level.

I would like to invite questions and answers now.

## **Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions).

The first question is from the line of Mithun Das, an individual investor, please go ahead.

## **Mithun Das**

Hello, sir. Thanks for taking my question.

## **Management**

Yes. Hi, Mithun.

## **Mithun Das**

I have a couple of questions on the operational metrics. So, I just wanted to know what is the usual the normal sugar recovery rate for Dhampur, assuming there are no B-heavy molasses diversion.

## **Management**

So, if we don't account for the loss of B-heavy, the normal sugar recovery rate for the group was 12.08%.

## **Mithun Das**

Okay, and what is the drop in the sugar recovery could be if B-heavy molasses is taken into account?

## **Management**

Yeah. So B-heavy we are done in only one of our plants, which was at the unit of Dhampur, out there our total loss was about 1.6%.

## **Mithun Das**

Okay, 1.6. Okay. My second question is again on the recovery rate that this is on the molasses side.

So, the typical recovery rate for some of sugarcane. What would be the typical rate for A-heavy and B-heavy?

## **Management**

So, for C-heavy normal yield that we get is approximately 225 liters is from C-heavy and in B-heavy we've got a yield of about 305 liters.

## **Mithun Das**

Okay, and the molasses percent of sugarcane how much that would be?

## **Management**

So on C it is an average is that about 4.5 and on B-heavy is comes about 6.2.

## **Operator**

We'll move on to the next participant that is in the line of Sridhar P from Ikea Ventures. Please go ahead.

## **Sridhar P**

Hello.

## **Management**

Sridhar, hi.

## **Sridhar P**

Thank you so much getting the call. So, my question is on the power plant. Is there any update, because there were some news.

## **Management**

No, there is no update. I think every day we all have been hearing stories that it will be out today or tomorrow, out still as of now, we have no information as to when it will actually come out.

So, still awaiting that.

## **Sridhar P**

And the expectations is that it will be lower by about 2 rupees per unit, is that the expectation?

## **Management**

Sridhar, that is exactly what even we've been hearing but this matter has been on and off for the last almost over two months, where they've been expecting it to be out. So we really can't say as to what sort of information which is floating in the market. I don't have any other news on that right now.

## **Sridhar P**

Okay, thank you for that.

## **Management**

Thank you.

## **Operator**

Thank you. The next question is from the line of Kush Gangar from Care Portfolio Managers Private Limited, please go ahead.

## **Kush Gangar**

So, how has been the monsoon so far in UP and the production estimates over there for the next season.

## **Management**

Soon. Kush, as of now the monsoons have been extremely normal in the UP and our plants are in the western part. So, as of now the current rainfall shows that our cane produce should be same as what they were last year, whatsoever is the added planting of which we will get some advantage.

So, as of now monsoons are normal in Western part of UP

## **Kush Gangar**

Okay, I think cash flow has been impacted the last year due to the higher inventory. Do you see any improvement in cash flows in the coming year?

## **Management**

Yes. So basically we are planning to do B-heavy, as in this year we had done it in only one of our plants.

We are planning to do it in more of our plants, we are waiting for the pricing to come out and then what sort of tender will be out. So we are planning to increase our B-heavy in some plants, as far as exports goes the policy for that is also expected to be out. So I think inventory will be lower from that perspective because of both exports and B-heavy, is that be the average stock of India.

## **Kush Gangar**

Okay, and we have announced our distillery capacities at the end of May. What is our target for distillery for FY 20.

## **Management**

So again, we are not planning any other expansion as of now. Our capacity of 400 KL is sufficient for us. We will do captive consumption of all molasses whether it is C or B-heavy.

So, our target to produce for next year is approximately 12 crore liters of Alcohol.

## **Kush Gangar**

Okay. And instead of higher prices compared to Q1 in our distillery, our margins are lower compared Q1 last year. any reason for the same?

## **Management**

Yeah, it was basically because of the feed stock price, molasses price last year and the price this year that higher transfer pricing that we had done from sugar to distillery.

That is only reason why you are seeing a lower margin year-over-year.

## **Kush Gangar**

Okay, What has been a trend for molasses prices over the last two to four weeks?

## **Management**

Molasses has gone up a lot from last year. at the same time the price was almost close to zero, currently the prices are hovering approximately 4,000 to 5,000 per ton in the state of UP

## **Kush Gangar**

Okay. So margins due to transfer pricing should be lower for the coming quarters as well?

## **Management**

Correct.

## **Kush Gangar**

Okay. Yes. That's it. Thank you.

## **Management**

Thank you.

## **Operator**

Thank you. The next question is from the line of Mithun Das, an individual investor, please go ahead.

## **Mithun Das**

Sorry.

I got cut from last question. I couldn't hear your answer on the B-heavy molasses recovery rate from sugarcane.

## **Management**

Yeah. So on B-heavy we get a yield of about 305 per liter and on C-heavy it is about 225 per liter, and from sugar cane, we get 4.5% the C-heavy and if we get approximately 6.25% B-heavy.

## **Mithun Das**

So for B-heavy 6.25% right?

## **Management**

Yes.

## **Mithun Das**

Okay. Got it. My next question is actually on the crop acreage in UP, I think since I got disconnected I couldn't hear your answer and somebody asked the question on the upcoming Sugar season.

Can you just elaborate on what is the situation on the ground?

## **Management**

Okay, so I will first talk about the total UP numbers that I have heard from Lucknow. The total acreage they are saying is about 3% or 5% is what the acreage is down the whole of UP as far as what we have seen within our five plants we have not seen any drop in acreage for Dhampur.

## **Mithun Das**

Okay, and do you see the impact of the monsoon, currently there are media reports saying that the monsoon has been not good over several parts of India. do you have any comment on that?

## **Management**

Yeah. So as far as UP goes and especially if you see western part of UP where we are based rainfall has been extremely normal.

We've been also reading that certain regions of western and southern part of India a quite fall in the monsoons. So again, on that exactly what you have read even we have the same reports right now on that side. But Western UP has been extremely normal.

## **Mithun Das**

Okay. Sir, do you have heard anything about the upcoming sugar season in Maharashtra and Karnataka like especially they are projecting like they almost 40% to 45% downgrading of the sugar production so any comments on that any updates on that?

## **Management**

Mithun again exactly the same as to what you have heard even in the last meeting that we had just a couple of weeks back they are for surely saying that their crop will be lower this year as they produced a 10.7 million. This year I've heard numbers ranging from 5.5 to 6.5 million tons. But still I would say, it is very early days, I think we should wait for about a month, let the monsoons get over, we have seen some reports come up that certain regions have got pretty good rainfall over the last 2 weeks.

So I think that it will be lower, but how much lower is very, very hard to say right now.

## **Mithun Das**

Right. Okay another question from the last conference call. You had said about the proposal for partial sugarcane juice perceptive.

Have you received that clearance?

## **Management**

No. So again, we had a few rounds of meetings in the government of India on the same. working group have a meeting scheduled in the month of August, both for the pricing and for partial cane juice.

## **Mithun Das**

Okay, Thank you very much. I will get back in the queue for more question. Thank you.

## **Operator**

Thank you. We'll move on to the next question that is on the line of Sanjay Maniyal from ICICI Direct. Please go ahead.

## **Sanjay Maniyal, 'ICICI Direct'**

Hello, sir. what percentage of B-heavy molasses you can divert mix, you can divert your sugarcane crushing towards the B-heavy will be more than 50% or what is the target exactly in that sense?

## **Management**

So, for us we have the advantage that with our capacity which we have right now. We can do B-heavy in all five of our plant. We are waiting for what is the sort of pricing that B-heavy will be offering this year because we all are expecting a hike in the price of both C-heavy, B-heavy and of sugarcane juice seeing that at least I would say that half will be B-heavy.

That is what we are planning as of now, but we may go up higher.

## **Sanjay Maniyal, 'ICICI Direct'**

Okay, and what kind of exports expected this year and what about the status of the WTO side where there have been a lot of objections regarding the export policy. So, do you think that there could be some change or this number can go down from say 5 million tonne last year which government allowed?

## **Management**

If we see what happened last year out of the 5 million tonne of exports which had to be done, as of now about 3.6 million tons of exports has happened and we believe, that about 1 to 2 can go further, so out of 5 a maximum of 3.8 million tons of exporters expected this year.

As far as the next year goes, the export policy as I said earlier, should get finalized within the next 2 to 3 weeks. As far as WTO goes, the government is working with all the experts on this to ensure that the next export policies are compliant to a larger extent. Even of last year we don't feel that we have violence related any of those orders.

That will get clarified in this new export order, which is expected very soon.

## **Sanjay Maniyal, 'ICICI Direct'**

Okay. So what about the recovery rates in the catchment area, has entire catchment area isn't early variety the new variety? Also, you would see a uptick in the recovery or you think that now recovery rate same of sort of bracket settle down and probably can go down from here?

## **Management**

See for us at least as of now, we still have some area which wasn't under the earlier of the variety.

So that is what has happened this year. But yes, UP have seen a huge hike in that over the last three years. Even for us that right now, if we take out the b heavy that we use our group average is 12.08. I still believe there is a slight uptick from here for us, which is there.

So I mean, I don't see that. This is the peak for us. But obviously, a lot of things are there to see it, but we still believe we have a point 2 to point 3 increase what we can manage and achieve from here.

## **Sanjay Maniyal, 'ICICI Direct'**

So, situation probably would be pretty much the same for other players also and means quite a lot of sugar mills in UP also so despite the area reduction there is a possibility of increasing production?

## **Management**

In UP, I do not believe that this year we produced 11.8 million tonnes, as of now the current target which is there which people are talking about is about 11.5.

## **Sanjay Maniyal, 'ICICI Direct'**

Okay, so what do you think means, what I understand that probably the inventory levels are comfortable for India. we are almost at 14 million, 15 million tons. and we probably still see the higher production compared to the consumption. So we still be adding few more tons. Of course, I'm not taking to the count the exports.

So how you think that this 14 million ton can go down to 7 to 8 million ton?

## **Management**

Only by two things, one is an Act of God and the other thing is export and the third thing is B-heavy or sugarcane juice. This is the future for Indian sugar. We are seeing a lot of expansion on the side of ethanol capacity this year and furthermore next year. So that we can divert more of sugar into that side and exports is the only other thing.

So when we see both of these things I personally believe that you will see a lower closing stock on 30<sup>th</sup> Sep 2020. So from 14.5 million tones which is expected this year, I do believe it will go down next year, even though we will have a surplus, but the current estimates that is at 28 million ton that India will produce next year, and I am expecting an export of at least 4 to 4.5 million tons, And if we can divert about a 1 million to 1.5 million tons in B-heavy and sugarcane juice. That comes to about 6 million tons. That means that 4 million tons come down.

## **Sanjay Maniyal, 'ICICI Direct'**

Okay. So this means B-heavy policy has been there from last 1.5 year. But still that shift which you have been mentioned in all the other companies also mention that it only be 1 to 1.5 million ton and not more. Why this is restricted to such a small quantity means why it can be 3-4 million tonne, probably sacrifice because of the B-heavy.

## **Management**

Because of the numerous capacities are still being built up. So, if you really see that there were hardly a few last year who had the capability of doing B-heavy that will go up this year. So, that's why this year we converted approximately 4 lakh tons of sugar into B-heavy. This year we are able to do 1 million to 1.5 million tons, that is almost a 2 to 3 times increase and then going forward, when I'm talking about 2020-21, out there you can even see it going up to your number of 3 million to 4 million tons.

## **Sanjay Maniyal, 'ICICI Direct'**

Okay, perfect. Thank you very much.

## **Management**

Thank you so much.

## **Operator**

Thank you.

The next question is from the line of Kishan Choksi, please go ahead.

## **Kishan Choksi**

We want to know more about the ethanol production and outlook for the ethanol production, because last year we have increased the capacity of ethanol. So now, we have got 4 lakh LPD capacity. What will be the outcome of that segment in the current year?

## **Management**

See ethanol for us is the key focusing area.

We do believe that with the surplus sugarcane India has seen year-on-year. Ethanol from B-heavy is the future for Dhampur and that was the reason why we increased that capacity to 400 KLPD. As far as India's ethanol policy goes, we still need more and more the blending as of now, that we have achieved about 7% is what India has achieved this year. Target is 10 and we already talking to government to increase it to at least 12% this year itself and 15% by 2021. So, with the added need of an ethanol in India, I don't foresee an issue actually of demand, but the issue is of supply.

That's why the new plants which are being set up which will come up in the next one to two years. You will see supply of this going up further and this is the future for Indian Sugar.

## **Kishan Choksi**

Thank you.

## **Operator**

Thank you.

The next question is from the line of Sridhar P from Akra Ventures. Please go ahead.

## **Sridhar from Akra Ventures**

Thank you again. So two question, so what about molasses price increase which effectively means the margin ethanol side will drop. So our accounting of molasses price will increase. Is that correct?

## **Management**

That is right.

## **Sridhar P**

Okay. So let's adjust margin between Ethanol to Sugar.

## **Management**

Correct.

## **Sridhar P**

Okay. Number two, given the sense that you have so much of investment has gone into power and ethanol, and that is collectively delivering a certain performance today. In terms of value, kind of unlocking for the shareholders will there. Any thought process in terms of thinking now or at some point of time in future in taking these two different entities?

## **Management**

So, we have thought about it, we had done a study but it's not very tax efficient, if we see all the taxes and duties. That's why because of the tax reasons it is not viable to put them into separate companies.

## **Sridhar P**

Alright, and the last one, intrinsically you thought about it, but right now given the whatever structure you thinking that it is not a right way to do it or in a perhaps it could be some sort of a gap.

## **Management**

It is not a very efficient structure.

## **Sridhar P**

So when you see tax inefficiency, is it in term of operational tax inefficiency or into the creating the corporate structure?

## **Management**

No, in terms of pricing of various things which are right now for us without any tax, funds that comes in plus if you see on power there is no GST So, then you do not get any GST credit there, so there are a lot of issues which are there right now, because due to which we are not seeing it to be cash flow efficient.

## **Sridhar P**

Right got it. And the other thing is that there is this whole Rangrajan committee people keep talking about 70/30 kind of a split between the farmers and the millers, right? So, if you had a look at that number today where that number would stand in terms of the split between what a sugar cane growers making wasn't sugar mill?

## **Management**

See, now if you just do simple math that if your FRP is 275 and your MSP is 31, you can just do that mathematics and then you will get that number. So it comes to about 88% or 89% which is being paid right now.

## **Sridhar P**

Under our committees actually talking about the entire process, right? So, if you have to look at even revenues which are all by products of it's a sugarcane. So, if you look at that from that perspective, what will be the number?

## **Management**

It will still be far higher.

So they were 2, which he had recommend in that point of time. The By-products varies a lot state-to state and plant-to-plant.

## **Sridhar P**

Right.

## **Management**

That is why it becomes hard to calculate if you take all the byproducts also and you only spoke about direct by-product.

## **Sridhar P**

Okay, thanks for that. Thank you. Thank you so much.

## **Management**

Thank you.

## **Operator**

Thank you. The next question is from the line of Rochelle Filrakka, an Individual Investor, Please go ahead.

## **Rochelle Filrakka**

Hello.

## **Management**

Yes, Hi. How are you?

## **Rochelle Filrakka**

Hi, sir. Good. I am just a new to the sector.

So I wanted to understand the difference between the B-molasses and C-molasses and how it is produced. Just to get an idea about it?

## **Management**

Sure. So basically, how much of sugar you extract out of the juice. So, if you extract all the sugar out that you can that become C-heavy molasses, and if you leave some sugar in it and you take it out earlier that become B-heavy. So, in that the sugar content is higher in B-heavy in comparison to C-heavy.

## **Rochelle Filrakka**

Okay.

## **Management**

So that is the difference of B-heavy and C-heavy.

## **Rochelle Filrakka**

And sir, from the ethanol we can also produce from the direct sugarcane juice also if I'm right?

## **Management**

Correct. So that is totally right.

It can also be made straight from sugarcane juice. The issue there is that you have to use a total sugarcane juice of that one plant. Now, no factory has the ethanol capacity to be able to use the total sugarcane juice.

That is why we have requested the government that we should be allowed to also use partial sugarcane juice here. So that is still being worked out with government right now.

## **Rochelle Filrakka**

So sir if the government accept this proposal, so like it will be a very beneficial for us, because we have a high capacity.

## **Management**

Yes, you are right, that we have capacity and the amount of captive, that we produce we still have to buy more. So, sugarcane juice also comes in it is better for us. And then, we don't have to go outside to buy feedstock.

## **Rochelle Filrakka**

Thank you, sir for answering my questions. Thank you.

## **Management**

Pleasure. Thank you.

## **Operator**

Thank you. The next question is from the line of Mayank Jhunjhunwala an Individual Investor. Please go ahead.

## **Mayank Jhunjhunwala**

Hi, sir.

## **Management**

Mayank Hi, how are you?

## **Mayank Jhunjhunwala**

Hi, all good sir. Sir I want to know a bit for the ethanol division. it has also some chemicals sales?.

## **Management**

Basically, as a chemical there is a very, very little so all that you are seeing on it. The total sale of Ethyl is around 5% only.

## **Mayank Jhunjhunwala**

kay, sir. Lastly, that basically a bit more than the quality. So how much EBITDA difference was there for that?

## **Management**

Won't be very much room. So as far as chemical goes that we produce lower this year because the prices have come down. cost is almost same.

## **Mayank Jhunhunwala**

So what was the cost of the chemicals? Just one chemical is there apart from ethanol that is ethyl acetate?

## **Management**

And in that the pricing we got 53 per kg with costing of that comes to about 48 to 49 per kg.

## **Mayank Jhunhunwala**

Okay.

And sir one more thing about the outcome of the board meeting yesterday, there was a proposal about the manufacturing of country liquor at your plant.

## **Management**

Yes.

## **Mayank Jhunhunwala**

So, We are moving to new direction for that?

## **Management**

So, basically what has happened is that under the UP excise what they have said that a part of your molasses that you produce you have to give to manufacturers of country liquor. The price which is being offered for the same very, very low.

## **Mayank Jhunhunwala**

Right.

## **Management**

Because of the fact that we already have a bottling plant at Dhampur. So we said why not we get into it and use our own molasses to manufacture Country Liquor, than to sell it to the other manufacturers. Because out there the price that being offered is very low.

## **Mayank Jhunhunwala**

Oh, that's cool.

## **Management**

And while if you produce Country Liquor, my pricing comes to almost close to 6,000 per ton.

## **Mayank Jhunhunwala**

Right, sir and sir UP has the great demand for it also.

## **Management**

Correct. So that is the only reason and because the whole system has been totally cleaned up. Where everything happens online.. So now it is just like selling it to an OMC you can also sell country liquor by taking advantage of the B heavy that we don't want to give up there is no Capex that we had to do.

Because we also see have bottling plant. That is the reason the board thought of it to be prudent for us to also get into this segment now.

## **Mayank Jhunjhunwala**

Right, that's all will do it for this year. What is the size of this business you expect to be in

### **Management**

So we will plan to start it in the next four to six weeks itself. We will be starting very small just because we want to understand the market and then by March we should be able to expand it. So, right now 50,000 cases is what will have planning to start from next month itself and we may expand it to over 3 lakhs cases by March of 2020.

## **Mayank Jhunjhunwala**

Okay. What was revenue potential for 3 lakh cases.

### **Management**

So the total sales that we expecting out of it is about INR75 crores.

## **Mayank Jhunjhunwala**

Okay, right. And sir as you said, you were applying for 12 liters of Ethanol this year. So what could be the molasses purchase for this current year? If you do that mode?

### **Management**

Again, out here what really matters is how much of B-heavy or sugarcane juice that we will do. Dependent on that We will exactly know as to what is the sort of shortage. That we may have to buy from outside. So that's why I don't have an exact number right now. But a by the next conference call that would have finalized our tenders both for B-heavy and for C-heavy. And also finalizing as to how much we will do I mean how much of B-heavy we do in our plants, how much of cane juice we will be doing that on that basis I will be able to inform you exactly how much we may still have to buy from outside.

## **Mayank Jhunjhunwala**

And sir, what could the margin of the same if you buy from outside and then make B-heavy or C-heavy?

### **Management**

As of now as I said, the molasses prices have gone up a lot. That is why the margins for surely have got lower down there. That is why we have to see what is the new pricing which will come out for C-heavy and for B-heavy, because we do expect the prices to be increased.

## **Mayank Jhunjhunwala**

Okay, so that will be fruitfull for us if they increase it because the cost has already gone off. Okay?

### **Management**

Correct.

## **Mayank Jhunjhunwala**

And sir last question about the power tariff is whenever it is announced, you'll do change from 1st April of this year or from the date announced.

### **Management**

The date as further as an order which was passed about three weeks back. Any revision of power tariff can only be prospective and not retrospective?

## **Mayank Jhunjhunwala**

So that could a very good. So sir do you feel any concern going from a sector now? sir, we have flood in some

areas Bihar and UP So does that all effect the production of sugar?

## **Management**

No. See if the flooding has been for a long period of time and it effect recovery of sugar. So as of now at least in our areas, we have not seen any sort of flooding at least that extent.

## **Mayank Jhunjunwala**

Right. But news report says some of UP has floods. Bihar has got in floods?

## **Management**

See at least in our area of Western UP there have not been like bihar.

## **Mayank Jhunjunwala**

Okay, that's good, sir. Okay, sir that's all the best.

## **Management**

Thank you so much.

## **Operator**

Thank you.

The next question is from the line of Kush Gangar from Care Portfolio Managers Private Limited. Please go ahead.

## **Kush Gangar**

As you mentioned then some earlier answer that FY 21 we can even reduce sugar by 3 million to 4 million tons on diversion for B-heavy and sugarcane juice. What Do we have already the capacities are in what you can say investment phase for that sort of conversion to happen or they will be depending on the next season the prices etcetera?

## **Management**

See, of course, if the prices everything else what will be the sugar price, it will all vary, I mean it will all matter right but obviously in case sugar prices will only go up only in case of shortage of sugarcane.

And then if that happens in your sugar stocks will come down then you won't have to do that much of B-heavy. So, it will all be perceived the B-heavy is the best avenue that sugar mills have now got to bring down their sugar stock with the sugar cane that is going up year-on-year. this year western part of India due to drought people are seeing a little lower sugar number. But otherwise, sugarcane is the best crop for a farmer. That's why even with the cane price arrear that you have seen over the last three years. Farmers have not been moved out of cane. So that's why B-heavy will be the future answer for India. Where we can convert our extra sugar into it ethanol and sent to the OMCs.

## **Kush Gangad**

Right. So this number can be achieved 3 million to 4 million tonne conversion et cetera is possible.

## **Management**

Yes, it is.

## **Kush Gangar**

Okay, and with respect to our facilities, we are fully integrated with respect to ethanol, right?

## **Management**

Yes. We are fully integrated with 100% of our captive use of molasses, as I said earlier, even if I was to do B-heavy in all five of my plants, I will have no shortage.

## **Kush Gangar**

Okay. So this increase in ethanol capacity would be beneficial at industry level and not for us, because we are fully integrated currently.

## **Management**

We all can use full B-heavy even as of now. We have the full option to use C-heavy, B-heavy sugarcane juice. We have already done all of our Capex. So we are fully done on that part.

## **Kush Gangar**

Sure, sir.

Thank you. Understood.

## **Management**

Thank you.

## **Operator**

The next question is from the line of Dvenal Shah from I Wealth

Management. Please go ahead.

## **Dvenal Shah**

Good afternoon, sir. Thank you, sir just like to understand on the one of the point in the presentation you mentioned the sugar monthly quota it's been fixed by the government. So sir in that how much are we allowed to sell Please some light on that?

## **Management**

Varies month-on-month it is not a fixed number depending as to what is the quota which is fixed for the month depending on what is the stock that each factory has got then on that basis the government gives you monthly quota.

So, it is not one number, which is there every month.

## **Dvenal Shah**

Yes. So because the volumes of the two shows this quarter was much higher than we've done in last few quarters, so this can be done under it for us or how do you see this?

## **Management**

No, the run rate won't be the same for us, because the fact that we had an added advantage of exports this year, I mean for this quarter and also we got higher quota, because of B-heavy, so under the policy, that the government has said in order to promote B-heavy. So the sacrifices of sugar because I had towards B-heavy, you will get it as extra sales quota.

So, that is why you are seeing sugar volumes higher.

## **Dvenal Shah**

Okay, and so what's your outlook on the sugar prices in 32.5?

## **Management**

I personally feel as well with the amount of stock that you have I believe that these are the sort of prices that you see in the northern part of India. Range of 32.5 to 33 is the sort of range, which I wish that I see going up. For what I don't see the prices going up or coming down drastically.

As you already know that the MSP for sugar has been fixed at 31. So that's why this 32.5 to 33 is the price that I see for northern part of India.

## **Dvenal Shah**

Okay. And so just one last question was on the B-heavy molasses into Q1 19 you have done around 130 lakh liters. So, what does that volume figure for this quarter sir?

## **Management**

That was 130 lakh BL during this quarter.

Dvenal Shah

Q1 FY 19, It is mentioned in the presentation.

## **Management**

Oh, I think that is wrong, sorry for that. Thanks for telling us, that that's for Q1 FY 20.

## **Dvenal Shah**

Okay.

And if we increase this as you said if we increase this bill. How much that will lead to the profitability -?

## **Management**

This is as far as B-heavy goes again. We have to wait for the new pricing to come out for B-heavy.

## **Dvenal Shah**

What will be coming period?

## **Management**

Within the month of August.

## **Dvenal Shah**

Okay. And at what price are you will decide to go for more B-heavy then doing CHeavy currently?

## **Management**

So, lot of probable on that, one is obviously the price. Second is the price of b heavy that we believe will be there because if we want to run a plan for 330 days, we all will have to buy, if we don't do B-heavy and will have to buy a large amount of quantity.

So there are a lot of factors which will take place for us to finalize as to how much of b heavy we do.

## **Dvenal Shah**

Okay. So as of now at this place is you will go for more B-heavy?

## **Management**

Yeah we all are going for more B-heavy than what we did this year. How much more is the only question, But we surely more than this year.

## **Dvenal Shah**

Sure. Great, sir, thank you.

## **Management**

Thank you.

## **Operator**

Thank you.

The next question is from the line of Mithun Das, an Individual Investor. Please go ahead.

## **Mithun Das**

Just wanted to ask about the buffer stock holdings with a carryover inventory almost India . So, and even the buffer stock is allocated to the five mills is around 8 lakh quintals. Do you think it's feasible that could be almost no divergent policies.

## **Management**

No, see out here, even if you take the 5 million ton buffer stock, that still stays within the country that is what you have to hold. Our stocks as of now as of 30, June were 4.4 lakh tons. Assuming that I'm able to sell even 1.8 lakh tons out of it.

I mean 1.8 lakh while stocks will still be at least 2.6 lakh to 2.7 lakh ton. And assuming that I mean as I said earlier, we are seeing that no acreage has come down in area of our five plants. We will be producing more of Sugar with a closing stock of India at 14.5 million tonnes. There is no reason for us not to divert to B-heavy.

Because, this sugar as you assume we'll get sold over a period of 18 months.

## **Mithun Das**

But that's what I was asking, I think you heard me wrong. The question was that I see a situation based on the quick I guess I did based on the inputs , which we have provided in my earlier questions regarding inventory situation.

I just need a quick math. And I found out that given that your economic capacity is around 13 crore liters for ethanol. I think almost all of the inventory all almost all of that capacity could be actually provided with B-heavy at 100% B-heavy in the next sugar season. So, what I mean is that you don't have to actually go for C-heavy in the next season.

## **Management**

Yeah, so you're probably right out here we all don't have to but the other factor is that two of our plants have a refinery, where we get a premium on Sugar price. So we have to also take that into account that we will have a loss of that premium price. So these are exactly the sort of mathematics that you all are doing. Right now waiting for the B-heavy price to be announced and then finalize that is how many of my plants will I do B-heavy and in which plants I will do C-heavy.

## **Mithun Das**

So what you mean is that I mean the all these data are not the only inputs.

There are other sort of other variables which needs to be considered ,will get clarified I think in the next conference call, correct?

## **Management**

Correct.

## **Mithun Das**

Okay, on the inventory situation since the first of which has been allocated to your five mills is around 8 lac quintals. substantial inventory we are holding as of now and as of what he will be holding at the end of September. So what is the extra cost you will have to bear for storing that extra carry over inventory.

## **Management**

See the advantages that this is the interest cost and the holding cost is paid by the government to me. I mean, at any point of times, this 8 Lac quintals of sugar. I will always have . Seeing the sugar stock, which is there in the country.

So this is the interest that will be paid to me by government. So this becomes a plus point for us. There will be no scenario, where I will not have this 8 Lac quintal in the next 12 to 18 months.

## **Mithun Das**

Right, sir.

So the purpose I think may be they understand it properly. So, that is allocated the maximum amount of quantity for which the government will reimburse the costs in holding sugar ?

## **Management**

Correct.

## **Mithun Das**

So in the case of Dhampur has inventory, which is more than 8 lakh quintals, which is being allocated by the government that also stock. If they're extra cost to that or is there is no extra cost to that. let's take an example It's like let's say the carryover inventory is around 2.5 lac tons. And buffer stock allocated to all the five millsis around with the .8 lac ton. Right. So you have an extra carryover inventory of almost 1.7 lac ton. So do you think that you have to, is there a cost associated with storing that extra 1.7 lack tons sugar in this example?

## **Management**

Yes, of course, because you have to pay the increased cost on that.

Right? So the holding one cost of that is paid by the company. So, your working capital drawn is that much more higher. That is the whole reason.

## **Mithun Das**

Can you quantify what will be the cost like is like rate of interest or something like per kg in which you have to store in a warehouse?

## **Management**

Our working capital interest is 8.75%, and if you see an average price of Sugar to be rs 31, you can just multiply 1.7 lack tones into 31 multiplied by 8.75% p.a..

## **Mithun Das**

Right, okay. I think I got them around. Okay. So my next question is on the power price revision .

So, have you heard any updates on this? Because I think I was just trying to a pickup if there has been any update in the media, but I think there is no such announcement?

## **Management**

So Mithun, we have not heard anything for the last almost close to six weeks on this.

## **Mithun Das**

Okay, I think my next question is on the ethanol prices. So, as you mentioned earlier in this particular call that there might be an increase in you see we anticipated increase in ethanol prices both under B-heavy as well as on the C-heavy and sugar cane Juice derived . Can you put more likely to in the sense that how much do you see approximately increase in percentage terms from the current prices?

## **Management**

See I really do not have a number because obviously I'm not privy to this to these meetings, but if we all recall that the last year when these prices were fixed the MSP for sugar was 29 and then in February , it was increased to 31.

## **Mithun Das**

31.

## **Management**

So, obviously if you want more diversion of sugar in to B-heavy you will have to increase that price just to take care of the MSP increase from 29 to 3 I.

## **Mithun Das**

Okay that to keep strategy equal to last year. Okay, I understand. So yeah, I think I don't have any question, i have I'll go back in the queue.

Thank you very much.

## **Management**

Thank you.

## **Operator**

Thank you. The next question is from the line of Mayank Jhunjunwala, an Individual Investor or, please go ahead.

## **Mayank Jhunjunwala**

Thanks sir. Sir I would like to know there was a news report of larger mills going to NCLT and IBC code. Sir, in fact, in that case if there's some distress asset sale. So are you looking at buying some? How could we bid for some assets? Because, we are getting that it will give nice cash flows in the current scenario.

## **Management**

Mayank there is no plan as of now at all to bid for any further sugar assets, we will have to see what sort of asset they are, what sort of liabilities are there, what sort of Cane price arrears are there. Because you may still be able to restructure a bank loan, but you cannot restructure a cane price. So going to have to study all of it.

But I mean, we are not at all seeing anything right now.

## **Mayank Jhunjunwala**

All right, great. And it's a just a follow-up on the power tariff. So, what could be the maximum impact on us also if the tariff is a related revised down?

## **Management**

Two rupees of the tariffs is the impact on EBIT for us will be around 80 odd crores.

## **Mayank Jhunjunwala**

But sir, why could the government want to do it sir in the current scenario when cane arrears are there , because the central government is having such a good policy for the sector and promoting the ethanol thing and suddenly they come out of the blue and just go kill the cash flows out here. We can obviously then wake up better with the one rupee hike in the selling prices that we look for companies like Dhampur is no problem. So, what synthesis makes doing it?

## **Management**

Mayank I would love for you to go to Lucknow and speak to them on this I have been there about 10 times in the last three months. So I am on the same page as you so.

## **Mayank Jhunjunwala**

Right, sir got your point sir. Okay, sir let's see what the outcomes is and all the best sir for the coming years.

## **Management**

Thank you so much Mayank.

## **Mayank Jhunjhunwala**

Thank you.

## **Operator**

Thank you. Ladies and gentlemen, that is the last question. I'll now hand the conference over the management for their closing comments.

## **Management**

Thank you so much.

On behalf of the Dhampur we would like to thank all of you for taking out your time for us to be on this conference call. If you have any further questions, please feel free to contact us either by phone or by email. You can also send us your queries through our website [dhampur.com](http://dhampur.com). And we will get back to you as soon as possible.

Thank you again.

## **Operator**

Thank you. Ladies and gentlemen on behalf of Prabhudas Lilladher Private Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.

Thank you.

## **Management**

Thank you all.