Dhampur Sugar Mills Limited

Q3 & 9M FY2010 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen good evening and welcome to the Dhampur Sugar Mills Limited Q3 and 9M FY'10 earnings conference call. As a reminder for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may press * and then 0 to signal for an operator. 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 FY'10 earning conference call. To discuss more about the results we have with us Mr. Gautam Goel and Mr. Gaurav Goel, Managing Directors and Mr. Arhant Jain, Executive President, Finance and Company Secretary. We will commence this conference call with opening remarks from Mr. Gautam and Gaurav Goel, following which we would have an interactive question and answer session. You may want to know some of the statements in this concall may be forward-looking and note to that effect is stated in the release sent out to you earlier. I would now like to invite Mr. Gautam Goel to share his perspectives with regards to the Company's performance during the quarter and 9M ended June 30, 2010 and the opportunities going forward. Over to you sir.

Gautam Goel: Thanks Ishan. Good evening and a very warm welcome at Dhampur's Q3 and 9M FY'2010 conference call. I would like to begin by sharing my perspectives on the sugar sector while discussing the Company's operational performance following which Mr. Gaurav Goel will take you through the financial highlights for the Company for the third quarter and nine months ended June 30, 2010.

As you would be aware there has been a sharp reversal in the sugar cycle after reaching a peak of Rs. 42 per kg in January to February 2010 and then declining to Rs. 28 per kg from May to June 2010. This resulted in muted results this quarter. However, the performance in our co-generation business has partially mitigated the losses in the sugar segment.

As you all know that in the sugar season 2009-2010 the UP Mills paid the farmers a price ranging from Rs. 230 to Rs. 280 per quintal of cane. This resulted in increased diversion of cane towards sugar production. In addition, the sugar production in Brazil is expected to rise owing to favorable climatic conditions. In this view the global prices have declined from the peak as well. The domestic sugar prices have mirrored international trends and the current realizations stands at approximately Rs. 27.5 per kg. During the quarter, the government increased levy prices from Rs. 13 per kg to Rs. 18 per kg. Given higher cost of production consequent to higher cane procurement cost and soft realizations, we expect margins from the sugar business to remain under pressure. Also, with improved cane acreage and anticipated higher yields, the initial estimates for sugar production in India for the sugar season 2010-11, is in excess of 25 million tonnes. Though cane procurement cost for the next season remains a matter of concern; the advent of fixed and remunerative price for sugarcane and the anticipated decontrol in the sector is expected to improve the operating situation.

Let me now share with you some operating highlights for the quarter and nine months ended June 30, 2010. Let me begin with our co-gen business, which has kept us good stead despite the reversal in the sugar cycle. High cane availability during the season has enabled us to further augment earnings from this operation. During the quarter and nine months under review we generated 18.13 Crore units and 52.57 Crore units of power respectively and exported 14.43 Crore units during the quarter and 36.67 Crore units in the nine months ended June 2010. Our average realizations for the quarter stood at Rs. 5.19 per units and for the nine months, realizations stood at Rs. 4.61 per unit. To add here, UPPCL has increased the power tariff to around Rs. 4 per unit effective October 1, 2009. Secondly, UPPCL has further allowed sale of power to open access to extent of 50% during the off season for power generated using alternate fuel, which has enabled higher realizations this quarter. UPPCL has also fixed tariff of Rs. 5.02 for the balance of the power that they will buy, generated out of coal. This coupled with multi-fuel capabilities and power-trading opportunity should have a positive impact on a power business in the coming years. Our overall performance in the co-gen division was subsequently higher than last year. Our power export capacity will enhance by 7 MW from 2010-11 on commissioning of the second multi-fuel boiler at Mansurpur unit by October 1, 2010. Our exportable power will enhance from 80 MW to 87 MW throughout the year.

Moving on to our sugar business; we stopped crushing at all our plants in April 2010. For the quarter, we crushed 1.57 lakh tonnes of cane while crushing for the nine month period stood at 32.74 lakh tonnes. Our overall recoveries stood at 9.24%. Till June 30, 2010 we produced 4.63 lakh tonnes of sugar and our sugar inventories now stand at 2.59 lakh tonnes at an average cost of Rs. 26.40 per kg. This is a blended cost comprising of free sales sugar cost of

Rs. 28.04 per kg and levied sugar cost of Rs. 17.92 per kg. Average free sales sugar realizations during the quarter and nine months were higher at Rs. 28.61 per kg and Rs. 31.57 per kg compared to Rs. 24.50 per kg and Rs. 20.87 per kg respectively in the corresponding period last year.

The performance in the chemical and ethanol division continues to remain under pressure during the quarter and nine months under review as a result of high raw material prices. However, improvement in sales volumes during the quarter enabled improved revenue performance. The Company, during the quarter and nine months, sold 51.06 lakh kg and 101.28 lakh kg of chemical and 15.74 lakhs BL and 97.30 lakh BL of RS ENA respectively. As you may be aware the government of India has finally decided to restart the ethanol-blending program. An interim price of Rs. 27 per litre has been approved and the committee has been constituted under the planning commission to finalize the price on long-term basis.

I would like to add here that the board of directors in a meeting held on August 7, 2010 approved the merger of its wholly owned subsidiary Dhampur Sugar Distillery Private Limited (DSDL) with Dhampur Sugar Mills Limited with effect from April 1, 2010. The shares to be allotted to Dhampur Sugar Mills Limited from DSDL, consequent to the merger, will be held as treasury stock. The capacity of Dhampur Sugar Distillery Private Limited is 100,000 litres per day thereby taking the total capacity of the group to 270,000 litres per day.

To end we believe we have created a strong operating and integrated business model. Also a leaner balance sheet makes us confident of delivering sustainable results in this volatile sugar sector. With that I conclude the sector and operational overview. I would now like to request Mr. Gaurav Goel to take you through the financial performance of the Company.

Gaurav Goel: Good evening and thank you once again for joining us on this call. I would now like to take you through the financial highlights of the Company for the Q3 and 9M for the financial year 2010. Our total revenues for the quarter and nine months stood at Rs. 451 Crore and Rs. 1,087 Crore compared to Rs. 275 and Rs. 655 Crore respectively last year. Earnings during the quarter were subdued due to losses in the sugar segment on account of high cane cost and low sugar realizations. For nine months, our EBITDA stood at Rs. 154 Crore. This was primarily as a result of improved performance from our co-generation business in terms of increase in sales volumes and improved realizations. Our interest cost for the quarter was higher by approximately 7% at Rs. 25 Crore despite reduction in the term debt during the quarter. This was primarily attributed to increased borrowings of working capital on account of higher sugar stocks, which we expect, would be liquated within the next two quarters. Profit after tax during the nine months stood at Rs. 29 Crore while for the quarter Dhampur posted a net loss of Rs. 41 Crore.

With regards to our balance sheet, the term debt as of June 30, 2010 was at Rs. 555 Crore compared to Rs. 595 Crore in the same period last year and at Rs. 566 Crore as on March 31, 2010. As mentioned earlier in our conference calls we foresee interest cost to come down going forward. The SDF loan stood at Rs. 171 Crore and this was increased by Rs. 14 Crore during the quarter.

Let me now take you through a business wise performance. Our co-generation business continues to offset the cyclicality of the sugar segment while contributing positively to our earnings performance. During the nine months, contribution from the co-generation business stood at 26.4% of total revenues at Rs. 388 Crore compared to Rs. 154 Crore in the corresponding period last year. On the quarterly front, the revenue contribution stood at Rs. 110 Crore as compared to Rs. 15 Crore last year. PBIT contribution for the quarters and nine months stood at Rs. 24 Crore and Rs. 93 Crore respectively. We remain positive on this segment, as installation of multi-fuel boilers will help us earn healthy earnings going forward.

For the quarter and nine months, the sugar division reported healthy revenue growth on the back of higher sale volumes. The sugar segment contributed 73.8% to the revenues at Rs. 379 Crore during the quarter as compared to Rs. 273 Crore in Q3 FY'09. For the nine months, the revenue contribution was 69.4% at Rs. 1,033 Crore. PBIT contribution from the sugar segment for the nine-month period stood at Rs. 31 Crore compared to Rs. 66 Crore in the corresponding period last year.

Revenues from our chemical and ethanol business for the quarter and nine months stood at Rs. 24 Crore and Rs. 68 Crore compared to Rs. 10 and Rs. 26 Crore respectively last year. Going forward, we continue to focus on the business opportunities from our chemicals, ethanol along with rectified spirits segment that offer better margins. These on a broad level are our financial numbers. Thank you once again for joining us on this conference call. We will be happy to answer any questions that you may have as of now.

Moderator: Thank you. The first question is from the line of Sanjay Maniyal from ICICI Securities. Please go ahead.

Sanjay Maniyal: What kind of initiatives would we expect from the government in terms of regulations, will it only be free sale quota removal or the levy as well?

Gautam Goel: As of now, the dialogue which was happened with them is on: a) total de-control on the sugar sector which includes the release orders which is as of now to be taken away, b) The levy to be removed and c) to make the cane area totally free for all the sugar mills and the farmer, which is still being debated, and the factory would be free to buy cane from anywhere. These are the three main things, which we are expecting will happen over the next two to three months.

Sanjay Maniyal: Do you believe that it would happen this time as even earlier there have been talks and it has been delayed. What kind of response are you getting from the government in terms of these demands?

Gautam Goel: The government is seriously pursuing this activity and I think they want to take it up as early as possible. Hence, they are moving ahead at the speed at which they are.

Sanjay Maniyal: Would your raw material cost for the nine months be higher in the fourth quarter. If yes, then what would it be for?

Gaurav Goel: As of now as there are no sugar operations on. The only thing, which we will add on to the cost, is the interest and the basic repairs, which are happening as of now. So, we do not expect too much of an increase in the cost coming in the Q4. As we mentioned in our speech earlier, our stock valuation for our free and raw, which had been made to white, is at Rs. 28 per kg, levy is at Rs. 17.9 per kg and the raw sugar which is still as raw that is at Rs. 21.3 per kg.

Sanjay Maniyal: In Q2 FY2010, you had taken a mark-to-mark loss of in terms of levy sugar pricing. Have we taken it back?

Gaurav Goel: Rs. 17.9 is at which we are valued our levy for the 9M, if we really see our cost vis-à-vis our M-to-M loss that is almost about Rs. 70 Crore.

Sanjay Maniyal: This increase, which you say, the government has given in terms of levy sugar i.e. to Rs. 17; would it be on a retrospective basis?

Gaurav Goel: That is as of now.

Sanjay Maniyal: What is the total debt on your books?

Gaurav Goel: Rs. 555 Crore.

Moderator: Thank you. The next question is from the line of Ritesh Khanna from Aadhar Securities. Please go ahead.

Ritesh Khanna: What is the cost per unit of the co-gen plant where you are using the multi-fuel boilers?

Gautam Goel: That depends on the price of coal. If I were to buy coal today, the cost would roughly work out Rs. 4.50 to Rs. 4.75.

Ritesh Khanna: So what was per unit cost last quarter?

Gautam Goel: Last quarter was about Rs. 4 because we had bought some coal before that and we also had some more contracts.

Ritesh Khanna: What would be average cane costing which we will be paying the farmers from next season?

Gautam Goel: This is an important issue to be understood because FRP is a new phenomenon. Before this the central government use to announce statutory minimum price (SMP) and the state government then announces state advised price (SAP) which the Supreme Court had held valid. One of the reasons that Supreme Court held the SAP valid is because they said the central government is only announcing the minimum price. Now we need to understand after FRP whether the state still has the right to announce the SAP and if they do not have the right to announce the SAP, the price will be dependent upon what the sugar price is prevailing at that point of time.

Moderator: Thank you. The next question is from the line of Abhilasha Satale for Techno Shares and Stocks. Please go ahead.

Abhilasha Satale: How much raw sugar have you purchased and sold? Also, how much is remaining and anticipated to be sold in this year?

Gaurav Goel: We have processed 1.64 lakh tonnes for the nine months period and we currently have 10,000 tonnes in raw stock as of now.

Abhilasha Satale: What is it valued at?

Gaurav Goel: Rs. 21.3 per kg.

Abhilasha Satale: What are your current sugar inventory and the cost at which it is valued?

Gaurav Goel: Our current inventory totally is 2.59 lakh tonnes as of June 30 and the average value for all of it is Rs. 26.4 per kg.

Abhilasha Satale: At a country level how much sugar inventory is anticipated in this year?

Gautam Goel: Numbers still are not fully out, but from our point of view, we all believe it will be in the range of around 3.5 to 4 million tonnes as of September 30, 2010. The inventory will also include some unprocessed raws because lots of contracts have got cancelled or are in dispute and some white sugar is also getting exported.

Moderator: The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: How much export has been allowed by the government of India, if any?

Gautam Goel: There is a notification where if you have sugar export under grain-to-grain license you do not need any release order from the Government of India. So based on our knowledge about close to 100,000 tonnes or maybe 150,000 tonnes of old grain-to-grain licenses were there. Also, what has come to our notice is that some of the new cargoes which are coming in right now, people have actually got fresh advance licenses instead of importing in OGL they are actually importing it in advance license and exporting the sugar made out of that.

Nillai Shah: Is it because of the high sugar prices right now?

Gautam Goel: It is because of getting a better realization in exporting it than selling it in domestic.

Nillai Shah: Is there any way you can do the same for raw sugar also?

Gautam Goel: You cannot really know what people could do potentially. It has been clear that raw sugar was lying in warehouse and then bonded warehouse then you could have re-exported that because theoretically I have not imported it as of now but a lot of the raw sugar which is lying at the port is fairly old, it is over a year old, most of it has already been cleared by the customs, so you cannot really export that without getting a specific release order from the government.

Nillai Shah: Can we expect that anytime soon? Is the industry working on that?

Gautam Goel: Industry is requesting the government to permit export at least 900,000 tonnes under the advance license scheme. Out of that 900,000, 300,000 to 350,000 tonnes was grain-to-grain, so balance is to be allowed to be exported. We have made these representations. I think my own estimate is that the government might start considering it only after the monsoon session is over and after they start believing the next year production number with a little bit more certainty.

Nillai Shah: Specifically on your co-gen numbers for next year, how much are you anticipating to be the total co-gen, based on your expectations of acreage etc., your co-gen unit's export next year?

Gautam Goel: For the nine months, we have already done 37 Crore units of export for this year. We do believe that next year would be substantially higher because of two reasons, one that the fuel availability would be better and secondly for due to lower price of fuel, so we expect about a 28% increase on these next year.

Gaurav Goel: Also, what happens is that in this year and during the first half of the season, we obviously run not at full capacity, next year, we do not anticipate to be operating below capacity from the beginning the season, so our co-gen will be going on full stream and we should have a longer season.

Nillai Shah: Would 70 Crore units be a fair number for next year?

Gaurav Goel: Yes. We believe that we could achieve that.

Nillai Shah: With an average realization of about a rupee or a rupee and a half?

Gaurav Goel: It would be higher than what we all have done.

Nillai Shah: So, about 2 rupees is possible next year.

Gaurav Goel: It is doable.

Nillai Shah: What if coal cost would go up hypothetically speaking 25%?

Gautam Goel: The advantage that we will have for next year is the higher availability of bagasse both from our own plant and also what we can buy from third party. Bagasse might be a cheaper fuel to use next year; obviously we will only use coal if it is cheaper than bagasse. Also you have to realize we have multi fuel boilers, so we can burn various fuels. Next year obviously when cane price is higher, bagasse availability should be higher, other than that we can use coal, we can use wood chips etc. The Company has been seriously looking at developing other alternate fuels. Coal is just one of the many options that we have and we will decide which is the most cost competitive option and we will use that particular fuel.

Nillai Shah: Based on the prices right now, will you actually have a loss in the fourth quarter also?

Gaurav Goel: Yes, we all do expect that if the sugar realizations do not improve from here, then Q4 will also be a loss.

Nillai Shah: Not just for the segment, but overall, because there would not be any other revenue streams coming that is why?

Gaurav Goel: Yes.

Nillai Shah: Where do you see ethanol prices heading and for that matter if the ethanol policy does come through at Rs. 27 a litre next year, what happens to the price of alcohol as a whole?

Gautam Goel: Let us understand that the ethanol price at Rs. 27 which has been fixed is an interim price. The planning commission is supposed to fix a final price, we do believe that Rs. 27 is a justifiable price and any final price that gets fixed should not be in great deviation from Rs. 27 as there is a solid justification for that price. Now with the ethanol program and the growth in the petrol consumption, the total country's ethanol requirement has been fixed at over 104 Crore litres which would probably constitute 40% of the total alcohol which will get produced from molasses. This would definitely become the benchmark price for alcohol keeping in mind the imported alcohol, even if were to import alcohol, it will be a higher cost than Rs. 27. So, Rs. 26 or Rs. 27 whatever is the price for ethanol should become the benchmark price for alcohol. Therefore the price of molasses and everything else should get tagged and linked through this.

Nillai Shah: Your commitment for country liquor still stands?

Gautam Goel: No, the quota system that they have will be something which is a state subject. The state can decide. Obviously three years ago, our Company won a case. It went all the way to Supreme Court and we actually won the case which said that if you have captive requirement for ethanol program you do not need to give any molasses for country liquor.

Moderator: The next question is from the line of Ami Shah from LKP Securities. Please go ahead.

Ami Shah: How much of the power was generated through coal in the nine months period?

Gautam Goel: You can say approximately 40% was done out of coal and balance was done out of bagasse.

Ami Shah: In the earlier calls we never happened to actually disclose the contract price of the raw sugar that we had got on the first two quarters of the financial year. Can we now have the sense for the full year as to how much and for how much have we contracted?

Gautam Goel: As of now, the raw to white that has been made has been valued at Rs. 28 per kg and the raw that we still have got left over has been valued at Rs. 21.3 per kg.

Moderator: The next question is from the line of Vikas Singh from B&K Securities. Please go ahead.

Vikas Singh: Can you tell me the average realization on chemical and ethanol?

Gaurav Goel: As we have got multi-products in this segment, the average realization for RS for Q3 was Rs. 24.98 per litre and for chemicals, where we have quite a few type of chemicals, the combined average price was Rs. 37.9 per kg.

Moderator: The next question is a follow-up from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: You have called the last two years cycle pretty well in terms of production for sugar. I know your estimates for this year too. Could you dwell a little bit on the parts breaking up in terms of diversion and the acreage also?

Gautam Goel: What we personally believe is that the total acreage for the next year is surely higher, so that is why we all have had estimated 25 million tonnes even when we spoke in April. However, it is still early times. But what we personally believe is that you could see acreage going down for the year 2011-2012 because there will be an issue of cane price for this coming year and I am talking about all over in India and not only about UP. So you can expect that the year after, there might be certain amount of sugarcane, which might be taken away from the system in case there are any issues either by way of cane price or by way of cane price payments.

Nillai Shah: Specifically for the current year? Because there are some people who are now suggesting it will go as high as 28 million tonnes. So I was wondering as to where the extra 6 million tonnes came from?

Gautam Goel: These are again early days but I think we are reading it between 25 and 26 million tonnes. We think Maharashtra will maximum produce about 9 million tones as they do not have the capacities to really crush beyond that. Also, if you look at the historical trends 8 to 8.5 million tonnes is what has been the average growth.

Nillai Shah: But we never had a situation where the farmers got paid Rs. 280 a quintal of cane. So it could be little different this time. In your view what is the risk on probability of reaching 28 million tonnes?

Gautam Goel: The probability of reaching that I think it is little difficult. However, the all India data that we have, including the sample surveys we have got i.e. ISMA has got a data of about 300 mills where the cane acreage is up by about 20% on an average for the country. So we have projected taking that into account.

Nillai Shah: Why is the government still at 13%, where is the disconnect?

Gautam Goel: The biggest problem in the government data is that it is not accurate and the data is based on 14.5 or 15 million tonnes of production for the current year. We have actually written to the government showing that with the cane data that you have for the year 2009-10 there is no way the country could have produced 18.8 million tonnes of sugar.

Moderator: The next question is from the line of Satish Kataria from Venus Capital. Please go ahead.

Satish Kataria: I have a question on our power business. Dhampur was the only Company initially when it had coal-based power boilers when industry went in to a slowdown. However, again many companies are putting up their big power plants now and I believe there was news that Dhampur will also increase their power capacity and will diversify from a pure sugar Company to a power Company going forward, so can we expect this going forward?

Gautam Goel: From our side we do believe that power is the area of our growth going forward, but currently there are no plans for us to increase immediately any power capacity. Next year yes, there is still a scope within the Company to take our power higher substantially. But there are no current plans as of now.

Moderator: As we have no further questions, I would like to hand the floor back to the management for closing comments. Please go ahead, sir.

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

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