



## **Dhampur Sugar Mills Limited**

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### **Q1 FY2010 Investor Analyst Earnings Conference Call Transcript**

**January 11, 2010 at 5:00 PM IST**

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- Moderator** Ladies and gentlemen, good evening and welcome to the Dhampur Sugar Mills Limited Q1 FY2010 conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you 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 of 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 Q1 FY2010 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 Mr. Gaurav Goel, which will be followed by an interactive question and answer session.
- You may want to know that some of the statements in this concall maybe forward looking and a note to that effect is stated in the release sent out to you, earlier. I would now like to invite Mr. Gautam Goel to share his perspectives with regards to the Company's performance during the quarter ended December 31<sup>st</sup> 2009 and the opportunities going forward. Over to you, sir.
- Gautam Goel** Good evening and a very warm welcome to all at Dhampur's Q1 FY10 conference call. I would like to begin by sharing my perspectives on the sugar sector while discussing the Company's operational performance, following which Mr. Gaurav Goel will

take you through the financial highlights of the Company for the first quarter ended 2010.

We expect the country to witness a second consecutive year of deficit in sugar's production. The country's sugar production for 2009-10 is estimated to be marginally higher than the previous year. According to our initial estimates, the country's production for the current season is expected to be around 15 million tonnes. Lower cane availability is also expected to influence the performance of our allied businesses.

One of the key concerns in the sector is cane availability. We also believe that firm sugar prices resultant to lower production is expected to offset this insecurity.

Now to give you a perspective on cane pricing in our region of operation; the U.P. government has announced an SAP of Rs. 165 per quintal. Following discussions with various farmer groups, the Association of U.P. sugar mills has reached an agreement with farmers whereby they have announced an incentive of Rs. 25 per quintal above the SAP, taking the final price payable at Rs. 190 per quintal. Our average cane procurement cost currently ranges between Rs. 230-240 per quintal.

Let me throw some light on crushing. We started crushing in three of our mills namely at Dhampur, Asmoli, and Rajpura in November 2009, while crushing at Mansurpur mill started in the first week of December 2009. We hope to increase our cane crushing by approximately 5%. The recovery trends are currently lower than last year, but we hope that the recoveries would improve in the future month so that we are able to achieve the same recoveries as last year. Adding to that is our refining capacities. We have contracted for import of 245,000 tonnes of raw sugar. Out of this 70,000 metric tonnes has been processed and the balance will be processed over the remaining part of the year. Just to reiterate, we are the first sugar Company in U.P. to install multi-fuel boilers at two of our factories which will enable us to refine raw sugar even during the off-season. Overall, we are confident that this conversion will be profitable given our import cost vis-à-vis the current sugar realization.

Average realizations of free sugar during the quarter were higher at Rs. 32 per kg compared to Rs. 17.9 per kg in the corresponding period last year. The Company in Q1 FY2010 crushed 106.88 lac tonnes of cane compared to 117.45 lac tonnes of cane in the previous year. The Company witnessed recoveries at 8.81%

compared to 9.1% last year. We produced 1.45 lac tonnes of sugar till December 31<sup>st</sup> 2009, this includes 50,000 tonnes produced from raw sugar and the inventory of the finished sugar stands at 1.16 lac tonnes valued at Rs. 24 per kg, whereas the inventory of raw sugar stands at 1.25 lac metric tonnes. The Company has also contracted for 55,000 tonnes of raw sugar for July shipment.

On the co-generation business, there are two key positives for this segment, firstly UPPCL has increased the power tariff to around Rs. 4 per unit effective 1<sup>st</sup> October 2009, an increase of about 33% over the previous year. They have also proposed a policy where they will facilitate sale of 10% bagasse-based power through open access during the season. Secondly, UPPCL has further allowed sale of power to open access to the extent of 50% during the off season, power from alternate fuel. For the balance 50% they have the first right of refusal. This coupled with multi-fuel capabilities and power trading opportunities should have a positive impact on our power business in the coming years. Our overall performance in the co-gen division was better than last year. During the quarter, Dhampur generated 141 million units of power and exported 97 million units compared to 61 million units in Q1 FY2009. Our average realization for the quarter stood at Rs. 4.60 per unit as compared to Rs. 3 per unit in Q1 FY2009.

Performance in the chemical and ethanol division remains subdued during the quarter as a result of high raw material prices without consequent increase in realizations of chemical, and rectified spirit production during the year has also decreased. We believe the Government of India is seriously considering revising the price for ethanol to be supplied for blending with petrol to Rs. 27 per litre from Rs. 21.50 per litre and restarting the ethanol blending program. We too hope to continue participating in this program and believe that this will have a positive impact on both, our ethanol and chemical businesses as well as our sugar business.

We are enthused by a strong performance and are confident of our ability to perform well going forward. I believe that we have built a strong operating platform making us well placed to deliver sustainable results and an outlook of future remains optimistic.

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, everyone. Let me begin by stating that we are happy to report a healthy operational as well as financial progress. Our total revenues for the quarter stood at Rs. 344 Crore compared to Rs. 269 Crore in the corresponding period last year. This was primarily owing to significant improvement in sugar realizations, though our sales volume was lower at 80,000 tonnes compared to 1.27 lac tonnes in the same period last year. EBITDA for the quarter was higher at Rs. 112 Crore compared to Rs. 56 Crore in Q1 FY2009. We believe improvement in our performance is significant due to low cost inventories, sales driven sugar pricing, and improved contribution from the power business.

Our interest cost decreased to Rs. 12.8 Crore in the quarter under review due to repayment of loans as well as substitution of high cost debt with low cost SDF funds. Our working capital utilization was also lower in this quarter. Profit before tax during the year increased to Rs. 82.5 Crore as compared to Rs. 15.1 Crore in the corresponding period last year. Profit after tax during the quarter increased to Rs. 57.8 Crore compared to Rs. 13.7 Crore in the corresponding period last year. The board has adopted a resolution to raise funds to the extent of Rs. 250 Crore within the next 12 months. This is the only enabling resolution and no capital raising plans have been firmed up as yet.

On our balance sheet side, our term debt as of 31<sup>st</sup> December, 2009, stood at Rs. 592 Crore. As mentioned in our earlier conference calls, we foresee the reduction of interest cost going forward. The un-disbursed SDF loan along with strong internal cash accruals shall be made available for repayment of long term loans and for working capital borrowings.

Let me now take you through business wise performance. Sugars division registered healthy sales turnover on the back of higher realizations of low cost inventories of sugar season 2008-2009. Also, we processed 50,000 tonnes of imported raw sugar during quarter ended 31<sup>st</sup> December, 2009. The total inventory as of 31<sup>st</sup> December, 2009, stands at 1.16 lac tonnes. This segment during the quarter contributed to 70% of total revenues at Rs. 316 Crore compared to 79% at Rs. 269 Crore in the same period last year. The sugar business contributed to 75% of overall PBIT.

Our co-generation business continues to favor satisfactory contribution and has complemented positively to our earnings performance. Contribution from the co-generation business stood at 24% of total revenues at Rs. 109.8 Crore compared to Rs. 57.3 Crore last year. Profit prior to interest and tax contribution for the

quarters stood at 27% at Rs. 25.8 Crore compared to Rs. 16.2 Crore last year. We remain positive on this segment as installation of multi-fuel boilers will enable us to earn healthy earnings going forward.

Our chemical, alcohol and ethanol business continues to remain under pressure and witnessed subdued growth on the back of increase in price of raw materials without corresponding increase in realization. Revenues from this business for the quarter stood at Rs. 20.6 Crore. PBIT for the quarter stood at Rs. (2.4) Crore. We expect our distillery business to perform better going forward given that we expect prices of ENA, industrial alcohol, and rectified spirit which is prevalent in the market to increase from these prices.

We continue to focus on targeting business opportunities from the chemicals ethanol or rectified spirit 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 now.

**Moderator**

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

**Ami Shah**

Have you made any kind of repayment in this quarter?

**Gaurav Goel**

Yes, we have done repayments during this quarter of Rs. 22.5 Crore.

**Ami Shah**

So where does the current debt stand at?

**Gaurav Goel**

Our current debt stands at Rs. 592 Crore as of 31<sup>st</sup> December, 2009.

**Ami Shah**

How much debt are we planning to repay in the entire year?

**Gaurav Goel**

We have not really firmed up exact plans. But we have our normal repayments for the year, which is around Rs. 120 Crore. We will be repaying that for sure and the surplus cash flow, a part of which would be used for repayment of loans.

**Ami Shah**

How much of the 245,000 tonnes of raw sugar is processed?

**Gaurav Goel**

Out of that, about 70,000 tonnes is processed and 1.75 lac tonnes are still to be processed.

**Ami Shah** Could I have the cost of raw sugar?

**Gaurav Goel** The raw sugar valuation which we have done to white as of now which is 3.15 lac quintal has been valued at Rs. 24.5 per kg. On the total raw sugar that we have still got left I can only say it is extremely well priced.

**Ami Shah** Currently are we paying cane price of Rs 240 or more than that?

**Gaurav Goel** No, our average varies from factory to factory. We are paying in the range of Rs 230-240 per quintal of cane right now, Rs. 240 is the highest.

**Ami Shah** How do you see this going ahead?

**Gaurav Goel** It will be dependant, to a large extent, on the sugar prices, but I do believe that you may see some further increase in cane prices from these sorts of ranges.

**Ami Shah** What have been your sugar realizations in the first week of January?

**Gaurav Goel** On an average, it's been about in the range of Rs 42-44 per kg.

**Ami Shah** I just wanted to understand that we expect the ethanol prices to be revised to Rs. 27 a litre. But keeping in mind such high cane cost, do you think the business is going to be profitable? What is the conversion cost of ethanol?

**Gautam Goel** Yes, I think the ethanol conversion cost doesn't really have any bearing on the cane prices. It is basically on the market prices of molasses. Currently the molasses market price is about, it's little lower than Rs. 400 a quintal in U.P. I think, if the ethanol prices are finalized at Rs. 27, it will be a good price keeping in view; it will be a price for three years. Next year, we anticipate cane prices to rebound and it will become the minimum price at which the price of alcohol will be sold. Therefore the molasses price will also reflect the prices of ethanol. So I mean even this year, the parity price would be close to Rs. 450 for molasses and in the years of surplus sugar production or higher sugar production, this will definitely keep the molasses price strong and stable.

**Ami Shah** Just a little bit on your power front, we currently have, say, 100

MW of power?

**Gautam Goel** 145 MW is the total generation, about 85 is what we export.

**Ami Shah** With this multi-fuel boilers, what are the number of operating days we expect to be?

**Gautam Goel** I mean the advantage with the multi-fuel boilers is that we would be able to pretty much operate at least 300 days a year. Multi-fuel boilers coupled with power trading and open access policy.

**Ami Shah** So you plan to operate at 300 days?

**Gautam Goel** Yes, that's the plan.

**Moderator** Thank you Ms. Shah. The next question is from the line of Rajiv Agrawal from Eureka Shares & Stocks. Please go ahead.

**Rajiv Agrawal** My question is with regard to the news items that have been appearing in the newspaper that some companies have squared off their raw sugar contracts in line with the firm prices, so have we done anything regarding that in this quarter?

**Gaurav Goel** Yes, in this quarter, we had squared off one cargo of ours.

**Rajiv Agrawal** How much stock would be lying at the port?

**Gaurav Goel** At the port now, there'd be a small quantum.

**Rajiv Agrawal** With regard to the sugar cane prices, you are saying that it is around Rs. 42 per kg, so do you think that by the time we finish crushing, cane cost could be in the region of Rs. 300 per quintal?

**Gaurav Goel** Rajiv, it is still very, very early days in the whole crop, whether it will be Rs. 260 or Rs. 280 or Rs. 240 or Rs. 300, is really tough to say right now but for surely we all do believe that cane prices would be higher than what we are paying right now.

**Gautam Goel** I think, Rajeev, one other thing which we have to understand the cane prices will, the recovery content also keeps moving up. So even if the cane prices go up, maybe the impact on per bag recovery content is to move up and the impact on the per bag basis might not be as high.

**Rajiv Agrawal** How much is the conversion cost for sugar per kg currently? Could you give us a number?

**Gaurav Goel** Yes, at current prices of Rs. 230-240, it comes to less than Rs. 30 per kg.

**Moderator** Thank you, Mr. Agrawal. The next question is from the line of Satish Bhatt from Anvil Research. Please go ahead.

**Satish Bhatt** You are enabling a provision to raise Rs. 250 Crore. Can you give some hint as to which segments you are going to invest the money in and what are your plans? Because according to me, you will be making some cash profit of Rs. 600-700 Crore in next two years. So what is the need of raising money?

**Gaurav Goel** The basic reason is that, as of now, we have not firmed up any plans as to how much we will raise, whether it will be Rs. 250 Crore or it might even be lower than that or we might not even raise any capital, so this is just as of now we are keeping ourselves ready. The areas that we want to expand on are on the power side and on the refinery side. Also because now coal will become a very important part of our own business, we are now trying to explore some opportunities to try and see as to how to safeguard ourselves for our coal supplies. We are also going to apply for some coal linkages also. So power & refinery would be the main areas where we plan to utilize these funds.

**Moderator** Thank you Mr. Shah. The next question is from the line of Nirav Shah from Antique Stock Broking. Please go ahead.

**Nirav Shah** At what rate have you procured the new 55,000 ton of raw sugar?

**Gaurav Goel** That is at current market price, but this sugar is for July shipment. So this was done on July New York.

**Nirav Shah** So what is the freight rate on this?

**Gaurav Goel** Freight rate on this is about USD 52.

**Nirav Shah** Any idea as to what are the freight rates on whites if anybody was to contract now?

**Gautam Goel** Basically on the whites, it depends which is the place, I mean it comes from Dubai, it could come from Thailand or ...

**Nirav Shah** Say from Thailand?

**Gautam Goel** If you buy a shipped container, it is about USD 28-USD 30, ship could be about USD 45, but then there is a Thai premium.



**Nirav Shah** Thai premium, exactly.

**Gautam Goel** Moves up, so I mean roughly the white sugar would be upwards of USD 800 reaching port, in the region of I think USD 820-830.

**Nirav Shah** In the last concall you mentioned that our term debt is Rs. 592 Crore and this quarter, I mean, as of September, our term debt was around the same levels, so is there any mismatch?

**Gaurav Goel** No, these got replaced. We got some SDF loans which came in during this quarter, so that is why the number is the same.

**Nirav Shah** What will be the working capital debt?

**Gaurav Goel** The working capital as of 31<sup>st</sup> December was Rs. 106 Crore.

**Nirav Shah** What is the blended rate for raw sugar at CIF rate?

**Gaurav Goel** We are now only saying that it is substantially lower than the prices currently. However, we were not giving an exact number on that.

**Nirav Shah** Any target production from cane and target crush for this season?

**Gautam Goel** It should be similar to last year. It could be 5% higher, that's what the initial estimate and trends look like.

**Moderator** Thank you Mr. Shah. The next question is from the line of Gopal Agrawal from Mirae Asset. Please go ahead.

**Gopal Agrawal** I just wanted to know how much would be our own crushed cane in this sugar season?

**Gaurav Goel** For this quarter, we have crushed 10.61 lac tonnes of sugarcane and our total last year was about 25.5 lac tonnes and we believe that it will be around that range, it can be plus about 5% from there, so it will be in the range of 25.5 to 27.5 lac tonnes, our total cane crushed for the year.

**Gopal Agrawal** Recovery would be in the range of 9%. What would be your figure?

**Gaurav Goel** Last year the average for all our mills was 9.3%. On an average we believe that we should be close to that number even during FY10.

**Gopal Agrawal** Are we planning to sell the entire 2,45,000 tonnes of raw sugar?

**Gaurav Goel** Yes.

**Gopal Agrawal** I just wanted to understand the math of this. How much of the raw sugar have we procured and stored in our own country and what is the total cost including interest and depreciation on that?

**Gaurav Goel** The total sugar that we already had in the country as of 1<sup>st</sup> of January was 1.2 lac tonnes. It is what we have with us, whether it's in factory or whether it is in transit and because most of these contracts were done early last year, so our costing is far-far lower than that of current market prices globally.

**Gopal Agrawal** Just to understand the ballpark number, what is the average including interest and depreciation?

**Gaurav Goel** Gopal, we are not giving a number on that. As I also said in my earlier conference calls, we all expect to make very healthy margins on raw sugar.

**Gopal Agrawal** How many units of power are we planning to sell? Can we sell around 50 Crore units?

**Gaurav Goel** Yes, we do plan to sell for 300 days at 80 MW.

**Gopal Agrawal** So roughly, for how much are you budgeting in the year, 50 Crore units?

**Gaurav Goel** Yes, that should be okay.

**Gopal Agrawal** Remaining budgeting we would be doing on imported coal or whatever coal, so what kind of gain can we have on power? Can we make over Re.1 per unit?

**Gaurav Goel** On imported cost, it depends upon the power trading, the rate we get. I mean, if we get the power prices firmed up upwards of Rs. 6, we should be making, I think, between Rs 1.25-1.5.

**Gopal Agrawal** So this year will we be selling roughly 4 lac quintals of sugar?

**Gaurav Goel** Seeing what we have from raw and own sugar, 4 lac tonnes should be a pretty safe number to assume for the year.

**Gopal Agrawal** Based on your forecast, what will our country do this year and next year?

**Gaurav Goel** 15 million tonnes is what we are estimating for 2010. Next year we do believe that cane planting will go up, but seeing the prices of other food crops also, how much exactly it will go up is still early. In our conference call in April, perhaps we will be able to throw better light on that.

**Gopal Agrawal** What would be our effective tax rate for the year?

**Gopal Agrawal** Our effective tax rate for the year should be about 30%. That is what we will have to provide for, but the actual payment would be only MAT.

**Moderator** Thank you Mr. Agrawal. The next question is from the line of Ankur Periwal from Religare. Please go ahead.

**Ankur Periwal** If you can just reconfirm the sugar volumes that we sold in this quarter. Was it 80,000 tonnes?

**Gaurav Goel** That is right.

**Ankur Periwal** The levy quota will be significantly lower in this quarter or it is almost at par for, say, comparing it with annual numbers?

**Gaurav Goel** No, our levy quota for this quarter was only 2,100 tonnes.

**Gautam Goel** But levy will be on the sugar that you will produce in that quarter.

**Ankur Periwal** Out of this 80,000 tonnes that we have sold, how much will be the raw sugar?

**Gaurav Goel** Out of the total sale, raw was 2.44 lac quintals and 5.55 lac quintals was out of cane.

**Ankur Periwal** Considering, say, 80,000 tonnes of sugar sold, we reach at a realization of around Rs.39.5 at an average?

**Gaurav Goel** No, but you have to also take into account the molasses and the bagasse which has been sold which is also taken on to the sugar side. Our average price realization for this quarter was Rs.32.

**Ankur Periwal** This average of Rs.32 includes levy price or this is only for free?

**Gaurav Goel** This is only for free because levy was such a small quantity that it really had no bearing on the average price.

**Ankur Periwal** The levy price was at Rs.13.5, right?

**Gaurav Goel** Yes, as of now, the new levy prices have not been fixed up. So, we all are waiting for it during this quarter; the revised levy price should be announced.

**Ankur Periwal** Any expectations from our side, like what are we looking at the new levy price to be?

**Gaurav Goel** Seeing what calculations that we have done, it should be over Rs.18.

**Ankur Periwal** On the power front we are reporting revenues of around Rs. 110 Crore. So that again leaves us at a realization of Rs. 8. Am I looking at the numbers in the correct manner?

**Gaurav Goel** This also is the cost of power and steam including inter-unit transfer, our average realization on the power side on exportable power was Rs. 4.6 per unit.

**Ankur Periwal** The one month that we had the open access in which we supplied power was around how many units?

**Gaurav Goel** Rs. 6.1 per unit was the price during that month and the total power which we sold in October was 29 million units.

**Ankur Periwal** On the cane price front, as you mentioned, currently we are paying around Rs. 230-240 per quintal. To what price level do we think these prices can shoot up? Or in other way, at what price are we comfortable paying the cane price to the farmers?

**Gaurav Goel** That is totally dependent on the price of sugar and also what other sugar mills pay for cane. As on date, there are excellent margins even in sugarcane at these prices. I mean, if we are seeing sugar price of Rs. 42, 43, 44 per kg, we all see excellent margins. So cane prices can go up from here and we are comfortable to buy cane.

**Ankur Periwal** Since sugar prices are now hovering around Rs. 41-42 ex-factory realization and we are still in the sugar season, so maybe in off season these prices could touch say Rs.45 to Rs.47 to Rs.48 or maybe north of that?

**Gautam Goel** Yes that is a call. You can say the demand supply, depreciation cost everything will come into view. So ideally, as a Company, we would not like to ...

**Ankur Periwal** No sir, just broadly I mean, because then the average for the entire year will be sort of Rs.40 north, if I am right to say that?

**Gautam Goel** You can do your numbers whichever way.

**Gaurav Goel** Rs.40 should be... I mean, that is what can happen during the next 3 quarters.

**Ankur Periwal** Can you provide alcohol volume numbers for this quarter?

**Gaurav Goel** The alcohol volume numbers again, due to the fact that we make various products in this business, so there is no one real number for it, but I will tell Mr. Jain to send you those. But if I give it to you on tonnes basis, we all sold 2,507 tonnes of chemicals and 4,293 kilo litres of rectified spirits.

**Ankur Periwal** No ethanol in the quarter?

**Gaurav Goel** It was a very, very small quantity which we clubbed with the spirit itself.

**Ankur Periwal** What are the current realizations hovering for both chemical and rectified?

**Gaurav Goel** We do not have an exact number as, on chemicals, we all make various types of chemicals which have varied pricing, but I can tell Mr. Arhant Jain to e-mail you this exact chemical-wise pricing.

**Ankur Periwal** If I got the numbers correct, as you mentioned for the imported, the power margins that we will earn from producing in off season, in case the realization is Rs.6 we will earn a margin of around Rs.1 to Rs.1.25 per unit. Am I right?

**Gaurav Goel** Yes, that is right.

**Gautam Goel** At today's coal prices.

**Moderator** Thank you Mr. Periwal. The next question is from the line of Mr. Arya Sen from Credit Suisse. Please go ahead.

**Arya Sen** Firstly, on the levy sugar that you are selling currently, what have you accounted in your Q1 results?

**Gaurav Goel** Rs. 13.5 is for what we have sold, as per the billing rate.

**Arya Sen** Your expectation is that when it does get revised it will apply to this as well?

**Gaurav Goel** Yes obviously, this is basically from any sugar this year in levy; any revision in price is paid to you retrospectively.

**Arya Sen** So it will be from October?

**Gaurav Goel** Yes.

**Arya Sen** You mentioned the figure of Rs.24.5 per kg; I missed that for cost of raw sugar that you have processed so far. Can you explain if it includes the processing cost or is that the cost your factory gets before processing?

**Gaurav Goel** No, it is after we have made raw to white, we have a stock of raw to white of 3.1 lac quintals, which on the stock basis has been valued at Rs.24.5 per kg.

**Arya Sen** This would be what you have processed over Q1 and even the year before?

**Gaurav Goel** Yes absolutely, that is the stock on hand.

**Arya Sen** I know you have contracted 245,000 tonnes so far, but given your existing capacities, what is the maximum amount of raw that you can convert. Also, can you increase your capacity so that you can process more in FY2010 itself?

**Gautam Goel** Let us see, basically if we focus ourselves, I mean our fundamental focus is the quantity of sugar that we can sell in FY2010. I mean probably we can do between 80,000 to 100,000 tonnes. That is up to FY2010. But if we keep October 2010 also in mind, because before that the domestic sugar will not come into play, then you have another 40,000 tonnes. So, about 120,000 is the total quantum that we could do further.

**Arya Sen** This is without expanding capacity further?

**Gautam Goel** The capacity cannot be expanded beyond our existing refining capacity. I mean, we do not have enough time to do that.

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

**Sanjaya Satapathy** My question is regarding the amount of levy sugar that we have

sold. Why is it that it is so small compared to the amount of sugar that you have sold from cane? Is that something to do with some change in government policy?

**Gautam Goel**

No, fundamentally, the levy sugar quota comes under sugar you have produced. Also the year before that, they had taken certain additional levy from us which has to be adjusted over this year's production. So the levy quota, the government policy is 20% and we took some additional levy from the sugar millers who had sugar stock with them, which would be adjusted over this year. So it is entirely on government's desire how much quota they want to give, on basis of the amount they can take from us.

**Sanjaya Satapathy**

If I go by your numbers then you are looking at almost 32% increase in your sugar sales in the remaining part of current year and we are also seeing a similar strong growth in terms of sugar sales from most of other mills. Just wanted to understand how is the sugar supply situation working out? In the sense, most of the mills are putting decline in dispatch in the current quarter and prices going up. And going forward, there will be a massive increase in the sugar dispatch. So does this mean that the prices will soften once you start liquidating your revenue inventory in a bigger way?

**Gaurav Goel**

Fundamentally, the sugar prices are going to, I mean what you said the 32%, I presume you mean the sugar price?

**Sanjaya Satapathy**

No, 32% is the amount of volume of sugar that you are going to sell that is going to rise in the remaining 9 months.

**Gaurav Goel**

No, as far as that part goes, we all are not seeing any sort of demand destruction at this point of time. Also, you always sell more sugar post March, so this has always been a trend that during the six months, during this month of January, March and December, your sales are always lower.

**Gautam Goel**

Summer time, the sugar consumption is higher plus the festival months come in right from Holi onwards. You have Holi, Rakhi, Dussehra and Diwali. So peak sugar demand is only during summer months. Winter time, it is a bit lower and monsoon time, it marginally drops.

**Sanjaya Satapathy**

So if that is the case, then the period in which the production is happening and the consumption is actually declining, that is the period when sugar price is rising the most? Does that mean that it is very speculative at this point of time and hence unsustainable?

- Gaurav Goel** See, I mean as of now, whether what will be the exact demand and supply scene in, say, post June or July, that is what will rule the sugar prices. So if you expect or if you believe that the sugar availability would remain tight in the coming months then there is no reason for sugar prices to come down. Obviously, in case there is any sort of imbalance or any further supply which comes into the country that is the only reason why you may expect sugar prices to come down. Otherwise we all believe the sugar prices should stay firm even in the next 3 quarters.
- Gautam Goel** I would like to add, at what price can the supply come in? Obviously if there is a positive margin only then somebody is looking for import sugar into the country.
- Sanjaya Satapathy** But, what it looks like is that the incremental supply is coming at around Rs. 32-33. Even in UP, if you start paying something like Rs. 270 for cane, then that will be the marginal cost of production.
- Gautam Goel** I mean, look at the current raw sugar prices; they are at about close to USD 700. So I mean that is again the March contract. So if somebody wants to buy sugar in future, the prices are lower but what is the refining capacity available in the country post March-April? So I mean, it is a little more complex than that and, roughly, the white sugar price is over USD 800 at reaching the port. So the incremental sugar, if it is white sugar, would probably cost about close to Rs. 41-42, after it is discharged from the ship.
- Sanjaya Satapathy** What is government doing about it in terms of how it is taking the industry into confidence in importing more and also for the subsequent years? I mean, can one expect some kind of government action during the time of festival or something like that?
- Gautam Goel** That is a point which the government has to take. As of now, they have not decided to import anything on their account. They are looking at how it can be imported by the industry and trade can be facilitated. If there are any problems, they are trying to remove them. For example, the infrastructure related problems, priority bussing at the ports, availability of rakes, and things like that.
- Sanjaya Satapathy** Can you just help us understand as to what is this import ban that is there in Uttar Pradesh and how is it working out?
- Gautam Goel** Initially, prior to the start of the season there was some agitation



by some farmer groups regarding import of raw sugar. The UP Government decided that they would send an advisory preventing...advising the Railway Ministry to not allot any racks. Railway Ministry is not allotting racks into UP. The Central Government has already sent request to the UP Government to review the situation.

**Sanjaya Satapathy** So far it has not really created a problem in terms of you processing the raw sugar. But if UP does not really lift the ban then you may start facing some kind of problem in couple of days' time?

**Gaurav Goel** Yes because we have adequate stocks as of now in our factory, so we are comfortable from that point of view. Obviously if this was to continue for a longer term period then at that point of time we all might face some problems.

**Moderator** Thank you Mr. Satapathy. The next question is from the line of Ambar Taneja from Abacus Advisory. Please go ahead.

**Ambar Taneja** When does the Brazilian sugar season start? When do they start harvesting and when is their cane available for supply in the international market?

**Gaurav Goel** Brazil has basically two seasons - Center-South which is bulk of the Brazilian sugar and North Brazil, which is about 30% of the crop. So Center-South is completely opposite to us. The season gets over in the month of November-December and they start around April-May, generally around May.

**Ambar Taneja** So the new supply comes in May.

**Gaurav Goel** Technically, they start settling in from May and then from June-July is when they start moving up. That is, for Center-South, this is predominantly 70% of Brazil. North is somewhat similar to India.

**Ambar Taneja** So the supply starts in about November-December?

**Gaurav Goel** Yes.

**Ambar Taneja** This year the SAP was Rs. 165. So now obviously the reality is that you are paying much more. Just wondering, in your experience, has it ever been that the SAP ever goes down, I mean because the situation might change from what we are facing today, where sugar is very expensive and so is the cane.

**Gaurav Goel** SAP is Rs. 165. What we are paying right now is an incentive to the farmers. You can call it as incentive or additional cane price or something. There have been times when the sugar prices have crashed. Those are the kind of litigations which are still pending in the High Court as to how the sugarcane prices should be fixed.

**Ambar Taneja** So, legally, if in the unlikely, when we have a bumper crop in 2011, let us say, you are saying there is nothing to prevent the SAP from going below Rs. 165?

**Gaurav Goel** Yes, legally, the government can decide that they need to reduce the price and they would reduce the price then.

**Moderator** Thank you Mr. Taneja. The next question is from the line of Ravi Deora from Marwadi Shares & Finance. Please go ahead.

**Ravi Deora** As you mentioned in the con-call that our price performance has declined by as the sugarcane price, raw sugar prices are going so high. But simultaneously the sugar prices are also going to increase more than 100% in one quarter, Rs 20 to Rs 43. So how does it affect the result of the Company?

**Gaurav Goel** Because of these better sugar prices, we all expect our margins to improve, going forward, both on our cane sugar and on our raw sugar.

**Ravi Deora** What about the UP Government, about the ban on the import of the raw sugar? Within how much time will it be solved or will it take more time to solve the issue?

**Gaurav Goel** See it is very, very hard for us to answer that, but for sure the Central Government is also talking to the State Government and there is no real ban but they all have given an advisory to the railways. So now they are asking the state to ensure inflow into the state and let us hope that this issue is solved very, very shortly.

**Ravi Deora** What would be our turnover in Q1 2010?

**Gaurav Goel** In Q1 2010 our turnover was Rs. 341 Crore.

**Moderator** Thank you Mr. Deora. The next question is from the line of Kavita Rawat from Systematix Shares. Please go ahead.

**Kavita Rawat** If you could give me the debt repayment schedule for the Rs. 592 Crore of debt that we hold?

**Gaurav Goel** This year, it was about Rs. 120 Crore, which is coming as per normal repayment and the same for next year also it would be in the range of Rs. 100-110 Crore. And then it is, you can say, about Rs. 70 Crore per year after that for the next 3 years.

**Kavita Rawat** What would be the SDF component in this?

**Gaurav Goel** The total SDF debt in our books out of the Rs. 592 Crore is around Rs. 158 Crore

**Kavita Rawat** So that would be repaid proportionately over the next 5 years?

**Gaurav Goel** No, that has its own repayment schedule. We also have got Rs. 80 Crore of zero cost loans which is mainly the excise loan that we have got from the Central Government.

**Kavita Rawat** When would these be repaid like the zero percent excise loans?

**Gaurav Goel** No, excise loans are coming up for repayment from next quarter and they are to be repaid over the next 2 years. While the SDF debt will be paid over a 5-7 year period and the major repayments of that will start after 2 years.

**Kavita Rawat** Also we have converted some of the higher cost debt to the SDF?

**Gaurav Goel** Yes, the SDF loans that we had got into the last quarter was used that for repayment of our higher cost loans.

**Kavita Rawat** That would be to the extent of?

**Gaurav Goel** That is about Rs. 22 Crore.

**Kavita Rawat** So what would be the average interest cost as of now for the Rs. 592 Crore?

**Gaurav Goel** It is about 6.7%.

**Kavita Rawat** On sugar realizations, you said the free sugar realization is Rs. 32, so could you give me the figure of average sugar realization including the raw, free and levy everything?

**Gaurav Goel** No, this is the total average of raw, free, levy is Rs. 32.

**Kavita Rawat** So then free would be?

**Gaurav Goel** Free were Rs. 31.5, and the raws which we had made into white and then sold, the average for that was Rs. 32.9.

**Kavita Rawat** Somebody also asked about the raw sugar processing capacity, and I just have a little doubt on that. If I am not wrong, we can process another 80,000 to 100,000 tonnes going forward in the current year, right? So what is the capacity that we have I mean during season and off season what is the maximum capacity?

**Gaurav Goel** During the season it varies because we can do raw in all four of our factories. During the off season, our refining capacity is 1,700 tonnes per day. Out of that, 900 tonnes per day we can do until August because of our new boiler which is in our 800 tonnes refinery which will come on stream in August. So up to August, we can do 900 tonnes per day in the off season and after August, we can do 1,700 tonnes.

**Kavita Rawat** During season, when we are refining, we are melting the raw sugar with the cane?

**Gaurav Goel** Yes, that is right.

**Kavita Rawat** There is significant EBITDA margin expansion we have seen in this quarter. Also the other operating income has also has increased substantially. So what would be the reason for that?

**Gaurav Goel** On the EBITDA margins, the major reason was our lower cost of stocks that we had and due to the better sugar prices that we all got during this quarter. The other operating income is basically the profit that we earned on our foreign exchange. We all had booked raw sugar at higher dollar prices, but currently because dollar has weakened, that is basically the profit on account of that.

**Kavita Rawat** Does that also include the profit we made on the washing out of that one contract?

**Gaurav Goel** No, that is not a part of this trading income.

**Kavita Rawat** The ethanol contract that you were discussing, you mentioned that it is likely that price will be for 3 years. So probably over the next year it will benefit out of it. But as per my knowledge, what I know is, this time the contract is expected to be for 1 year, not 3 years.

**Gautam Goel** No, basically the price we are going to finalize is Rs. 27 and in

order to save time, the initial tenders with the oil companies have come out also for one year. In order to save time, they will have a contract for 3 years. They do not want to go for re-contract and things... the government wants to take a cabinet approval for Rs. 27 for 3 years.

**Kavita Rawat** For power, during the off season you said 300 days of operations but that 80 megawatt surplus power will we have it at 80 MW only during off season also?

**Gaurav Goel** Yes.

**Kavita Rawat** Entire 80 MW we will be able to supply during off season? Because I remember in the last conference call, you had mentioned that out of 80, we will be able to do about 50 to 70.

**Gaurav Goel** No, we have the capabilities to do 80 MW. Depending on the price of coal or other fuels and the price of power, we will then take a call as to how much we will do during the off season.

**Kavita Rawat** Have we currently got any linkages?

**Gaurav Goel** We have not got linkages right now. The current import prices for the kind of coal that we want to buy is about USD 85 a ton.

**Kavita Rawat** So have we already bought sufficient stock or are we buying, I mean how are we operating on that front?

**Gaurav Goel** We have got some contracts and we are undertaking to do some more contracts. Because coal is something which, for fire reasons, you cannot store too much and we are also applying for linkages.

**Kavita Rawat** So this USD 85 that we are importing...?

**Gaurav Goel** That is last import contract, I mean the import price, the latest offer that we have is for USD 85.

**Kavita Rawat** Inclusive of transportation?

**Gaurav Goel** That is to the port. USD 85 to the port, CIF to the port.

**Kavita Rawat** Then to factory?

**Gaurav Goel** That is 5% duty and total cost roughly works out to about Rs. 6,200 a ton currently at factory.

**Kavita Rawat** And about UP, the ban in transportation of raw sugar, specifically you were saying that it is for the transportation through railway. So can the raw sugar be brought into the state by road or something?

**Gaurav Goel** It is happening in a smaller quantity but if you want to move big quantities, it is very difficult, logistically, to move such kind of quantities by trucks only and it is very expensive to move from Kandla, by trucks.

**Kavita Rawat** What would be our raw sugar stock lying outside of UP?

**Gautam Goel** It is about close to about 60,000-70,000 tonnes.

**Moderator** Thank you, the next question is from the line of Avinash Agarwal from Sundaram BNP Paribas. Please go ahead.

**Avinash Agarwal** Just wanted clarification on this, 245,000 tonnes contracted. Does it include the 55,000 tonnes of July?

**Gaurav Goel** Yes it does.

**Avinash Agarwal** Out of that you have refined 70,000, and you have approximately 31,000 tonnes in stock right now?

**Gaurav Goel** 31,000 tonnes of white sugar from the raws, which have been made to white.

**Avinash Agarwal** In India today you have 120,000 tonnes in total?

**Gaurav Goel** Yes and out of that about 60,000 tonnes is already with us in the factory.

**Gaurav Goel** Plus 30,000-31,000 of the raws, which we have already converted into white.

**Avinash Agarwal** You have mentioned a number of 400,000. Was that for production or was that for sales?

**Gaurav Goel** No. I was asked a question as to how much sales do you expect, so he said is figure of 400,000 tonnes and for which I said yes. As far as what we plan to make totally, if we see that we have got 2.45 lac tonnes of raws plus we plan to make approximately 2.5 lacs tonnes out of our cane sugar, the total sugar that we have currently with what we have contracted is about half a million tonnes.

**Avinash Agarwal** Regarding cane cost, you have mentioned Rs. 230-240. Was that for Q1?

**Gaurav Goel** That is for current.

**Avinash Agarwal** What was it for Q1?

**Gaurav Goel** Rs 205.

**Avinash Agarwal** Right now you are saying that the prices could go up in the future in the raw sugar and for cane has it happened earlier that the price that you have paid in the next season is lower than what you have paid in this season?

**Gaurav Goel** Yes, it has happened. If we recall, we paid the price of Rs. 125 the previous year; this is only 2006-07 when the price of cane paid was Rs. 125 and in 2007-08 we have paid the cane price of Rs. 110.

**Avinash Agarwal** Was it more because of the court order that you received? Was it more because of that legal power that you got?

**Gaurav Goel** There are two parts. One, the SAP that was announced in 2007 was Rs. 125. Sugar prices were lower. So the industry went to court and the court announced an interim price of Rs. 110. That was the price paid to the farmer. There have been instances where people have paid an incentive for getting higher sugar cane and subsequently, in the coming year when the sugar prices were not there, so the SAP that was announced was not with regard to these incentives gained. Basically the price formula they came out with this is the cost of production. It is a price lower than the net price paid by the factories in the previous year.

**Avinash Agarwal** Just wanted to confirm on your processing capacity, you mentioned that till August during off season you can process 900 tonnes per day and after August it is 1,700 tonnes?

**Gaurav Goel** Yes, that is right.

**Avinash Agarwal** And during the season how much can you process?

**Gaurav Goel** That depends on the availability of cane and the surplus capacities we have with our factories. Roughly we can produce about 3,800 tonnes of sugar per day. Whatever amount that we are unable to produce from cane, we can sort of theoretically produce the additional amounts of raw sugar.

**Avinash Agarwal** Actually you mentioned that during off season you can sell 50% in open access and the other 50% the government has the first right of refusal, the U.P. State Electricity Board. At what price did you sell it to them?

**Gaurav Goel** That specifically is a price that has to be worked out on the basis of your cost of production and 16% return. So whatever price, let's say coal is at an x-price, and then the cost of production is at Rs. 6 or Rs. 5. Suppose it is at Rs. 5 and 16% rate of return, then that is the price which the U.P. government has a right of refusal whether they want to buy at that price. They do not want to buy at that particular price, and then I can sell the balance quantity also through open access.

**Moderator** Thank you, Mr. Agarwal. The next question is from the line of Devendra Bhandari from Joindre Capital. Please go ahead.

**Devendra Bhandari** I want to know the 1.16 lac tonnes you said is the stock with us. Now, further how much will we be producing in the next remaining period out of sugarcane and how much will be from the raw sugar?

**Gaurav Goel** Anywhere in the range of 1.4 - 1.6 lac tonnes is what we expect to produce out of cane and about 1.8 Lac tonnes out of raw sugar.

**Devendra Bhandari** So the total availability we will have would be 3.2 plus 1.2?

**Gaurav Goel** Yes. 4.4 in the next three quarters.

**Devendra Bhandari** Yes, for the next three quarters and that will be sold?

**Gaurav Goel** No. As far as the sales part goes, that is up to the government as to what sort of release they give to us

**Devendra Bhandari** But we are free to sell converted raw sugar in the market?

**Gaurav Goel** Even for that they give you the lease for two months.

**Devendra Bhandari** How much gain have we made on this squared up contract?

**Gaurav Goel** Our gain was Rs. 9 Crore.

**Devendra Bhandari** Has that been booked in December quarter or that will come in the future quarters?

**Gaurav Goel** That has been booked in this quarter.



**Moderator** Thank you, Mr. Bhandari. The next question is from the line of Rajiv Agrawal from Eureka Shares and Stocks. Please go ahead.

**Rajiv Agrawal** Since we are assuming the cane cost could be in the region of Rs. 250 and northwards, how much would be its attractiveness for a farmer to grow more cane vis-à-vis with other crops?

**Gaurav Goel** As of now, the parity for sugarcane is fairly healthy. So vis-à-vis wheat, rice, there is positive information towards sugarcane. The relevant factors will be the availability of seed and of course in areas where our farmer can take maybe few crops of paddy, which is not so much in North India vis-à-vis south India, they could still decide to be a little less bullish on cane. But in North India, especially U.P., there is definitely a positive impetus to plant more cane.

**Rajiv Agrawal** So could you give us some color as to how much could be the rise in sugarcane production coming out of U.P. next year?

**Gaurav Goel** It is a little premature to say. But I would say that the climate and the monsoon will also have a bearing on that; but to have a 20-25% increase could be a minimum level you could see in upward increase. Off the cuff, that is the number which should be a minimum increase, as of today.

**Moderator** Thank you, Mr. Agarwal. The next question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

**Aman Sonthalia** In the current year the sugarcane production is around 125 to 130 lac tonnes. The next year's sugarcane production will be not more than, I think, 170 lac tonnes. Farmers are relating around Rs. 240 per quintal for cane at present in your area and I hope that by the end of the season they will get around Rs. 280 to Rs. 300. But in any course next year production will also be very low as compared to consumption and the farmers will not agree to any price below Rs. 280. My question is that the October contract of raw sugar is available at around 21.70 cent per pound, so why are you not going for a contract for October contract?

**Gaurav Goel** I think your numbers for this year's production are a lot more bullish than our numbers. We would just like to let the entire season pan out and then one can take a call at that time. Aman, I personally believe that 10 or 12 months' time in a sugar year is very, very long. It can change both in the global front and in the India front. If by chance Brazil produces more sugar than what is expected, then we can expect New York to come down from this

21 cent level also. So that is why we are not as of now taking a longer-term call than July. But your point is extremely well taken. I mean if what you are saying is true and can be true then India will again need to import a very, very large quantity of raws; but we would like to take that call slightly in the next few months once we actually see what is the planting of cane in U.P. and in India.

**Aman Sonthalia** Currently, the farmers are getting a very good price and next year in any case they will not agree below this price I think. So the raw sugar cost will be definitely lower than the cane price. So I think the Company is a bit conservative about contracting raw sugar?

**Gaurav Goel** See, in any case, when it comes to actual operation, one cannot say that I will not buy cane and I will only use raw sugar. Also, what is the price that the farmer will take at that point of time will again be a factor which will be dependent on the sugar prices prevailing at that time. We will continue to do raws even next year if there is a shortage and we will for sure take a call on the future contracts in the next couple of months.

**Aman Sonthalia** Is the Company planning for any overseas acquisition or coal mines acquisition and power expansion and raw sugar refinery expansion?

**Gaurav Goel** Yes, all those plans are being drawn up and the exact plans of the Company vis-à-vis all the four things that you have said would be firmed up again in these coming months.

**Aman Sonthalia** Is the Company planning any stock split at the moment?

**Gaurav Goel** There are no plans of any stock split at this point of time.

**Aman Sonthalia** What is the valuation of closing inventory?

**Gaurav Goel** The closing valuation is Rs. 24.

**Aman Sonthalia** How much raw sugar are you planning to do this accounting year?

**Gaurav Goel** See, as we said that we have 2.45 lac tonnes of contract. We have planned to do the whole of it during this financial year.

**Aman Sonthalia** I think during the off season also you can process raw sugar from surplus bagasse also.

**Gaurav Goel** We have planned that out. We have planned the initial months with bagasse and the new boilers that we are commissioning in Mansurpur which we hope will be ready by late July or August. That in any case has the ability to also use coal.

**Moderator** Thank you Mr. Sonthalia. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade** You mentioned sometime ago that the government has the first right of refusal for the power out of coal. Is it the first right of refusal, is that a right or is that a liability for the government? I am just trying to understand that does the government definitely need to buy or it is just an option?

**Gaurav Goel** It is an option that they have. Suppose my tariff comes out, they then have to buy my power at, let us say, Rs. 5.50. They do not want to buy power at Rs. 5.50. Then they will say okay, fine, you go ahead and sell it in the open market as we do not want to buy at that price.

**Achal Lohade** You said that you probably may look at getting into power business. Is that like a thermal power plant?

**Gaurav Goel** We are already in the power business. If you recollect our previous concalls, we had a very strong view with regards to power. So the bulk of the investments that we made in the power segment were boilers which could burn bagasse as well as coal and the turbines that we installed also could operate like a conventional power turbine when the process steam is not required.

**Achal Lohade** When you say power expansion, does that mean a separate power plant or just addition to our existing power plant?

**Gaurav Goel** Our existing plants are designed and we operate in a way where we can operate them as the co-gen plant or we can operate them as an independent power plant when a process is not running.

**Achal Lohade** When we look at the competing crops, what is the parity cane price?

**Gaurav Goel** As on date, present parity price of wheat and rice is around Rs. 200-210 per cane up north in our area.

**Achal Lohade** So, when we say fair and remunerative price of Rs. 130, how did the government arrive at this Rs. 130?

- Gaurav Goel** There was a Supreme Court order saying that any price has to be fixed on actual cane price paid and not on the SMP. In order to take care of that judgment, they came up with this FRP issue. Now in case FRP was to be taken up by the government, then the levy price has to be further increased at a price of Rs. 130. We are expecting a levy price in excess of Rs. 18. Then if they take up the FRP any further, it is basically for levy price, not for anything else.
- Gautam Goel** Also basically what they have clearly mentioned is the calculation that, if the cost of production of cane is say Rs. 120 or Rs. 110 and the farmer will get a 15% profit. Beyond that if a factory or a state wants to announce a higher price, let them pay for it, but that would not have a bearing on the levy price.
- Achal Lohade** So, if one says that as of now the parity price is Rs. 205 or Rs. 210, then it also means that at Rs. 130 price obviously it is a loss-making proposition for sugarcane farmers.
- Gaurav Goel** Opportunity cost price, yes.
- Achal Lohade** Most of U.P. does planting in February-March. How do we see the planting going forward? If we are paying a cane price of let us say Rs. 250 onwards, when we say this 20-25%, why would that be only at 25%? What is restricting farmers?
- Gaurav Goel** The only thing which is restricting will be the availability of seed and that they have to also take into account that ratoon will go out of the system so only, I mean, theoretically, why you cannot have double is because suddenly about close to 40% of the ratoon cane which is available, will move out of the system. This year plant cane will become next year's excess ... the incremental cane that they plant will be the augmented cane that you will get next year.
- Achal Lohade** Sir, I was looking at 2004-05 where we had a production of 12.5 million tonnes and it jumped to 19 million tonnes in 2005-06. There we saw a 50% increase in the production. Can we see a similar increase in the production in the coming year? Is there any possibility?
- Gaurav Goel** There is no reason why you cannot see a situation like that. But again, factors that happened then was cane pretty much was planted all across the country. This year you have few regions like M.P. and all where cane is not coming back. Diversion is also high. The quantity of diversion of cane is also increasing.

You will definitely see an upward bias now. That is why we are seeing a little conservative at this point of time. We will have a much clearer number on this post-April when the planting numbers are complete.

**Achal Lohade**

How do you see Maharashtra's production given that the cooperative societies are paying over Rs. 300 kind of cane price even their realization is similar Rs. 40, Rs. 41 per kg. So do you see a massive increase in Maharashtra compared to U.P.?

**Gaurav Goel**

Again, in Maharashtra also, the cane price is favorable and cane in Maharashtra will also go up. The two areas where maximum cane will go up probably would be Maharashtra and U.P. of course, Karnataka, Gujarat will also follow. So there is an upward bias for cane. It will depend upon monsoon, rains and everything else. You have to also realize that the cane that we plant now let us say post-January-February, which will not be available for crushing next year. It will only be available year after that.

**Achal Lohade**

So would that be like 20 months crop or something?

**Gaurav Goel**

18 months crop. Maharashtra has certain quell for months crop and then they have a certain portion which is an 18 months crop.

**Achal Lohade**

Which one would be a higher portion?

**Gaurav Goel**

The 12-14 months is about 70%, and 18 months is about 30%.

**Achal Lohade**

Basically, on the cane pricing you mentioned that the cane prices can be above Rs. 250. If we are expecting sugar prices to remain firm, why do we think we will be able to restrict only at Rs 280 or Rs 300? Given the scarcity or the shortage in U.P., do we even imagine that there is a possibility of cane prices going beyond Rs. 300?

**Gaurav Goel**

Anything is possible in this world, but the factor remains that when it comes to us we have a concern with direct cane price and the cane cost per bag. Generally, the recoveries do tend to improve during the course of the season. So even if you are paying a higher price maybe the impact per bag might not be so high. The other factor is the cane price that we pay is a combination of diversion, we complete the competition we do with sugar, and also beyond a point whatever price we might pay; you will not increase your cane supply because there is only that amount of cane available on the ground.

**Moderator** Thank you, Mr. Lohade. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

**Kaustubh Pawaskar** In October 2009 the Company has sold around 60,000 tonnes of raw sugar.

**Gaurav Goel** That is right.

**Kaustubh Pawaskar** I just want to know what kind of profits you had booked on the same.

**Gaurav Goel** Rs. 9 Crore.

**Moderator** Thank you, Mr. Pawaskar. The next question is from the line of Nikhil Agarwal from Kim Eng Securities. Please go ahead.

**Nikhil Agarwal** During Mulayam Singh government regime there were many tax benefits in sugar sector. Are these benefits still there?

**Gaurav Goel** No, these benefits have been taken away by the present government and even we were a part of that scheme. But that incentive scheme is right now in court and it is still being reported in the court. So there is no benefit on that account as of now.

**Nikhil Agarwal** So, currently you are not getting any benefits like transport facilities or anything like that?

**Gaurav Goel** No.

**Nikhil Agarwal** Many companies are going for collaboration with the foreign companies like EID Parry's going with Cargill. So, do any plans on that front?

**Gaurav Goel** No, because we were the first as such in the country to install refineries we have the technical capability to do it. So even if we do plan to put up a refinery near the port we have both the technical and the financial capability to do it on our own and we do not need a foreign partner for that.

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

**Sunny Agrawal** Actually there was confusion on the raw sugar side. Totally we have contracted 245,000 ton of raw sugar, and out of that you have processed 18,000 ton in last quarter that is 4QFY09? And

52,000 ton was processed in 1Q10?

**Gaurav Goel**

Yes, that is right.

**Sunny Agrawal**

I wanted to know that the 60,000 ton which we have squared out without processing, where does this fit in this number?

**Gaurav Goel**

No, that is not a part of this 2.45 lac ton.

**Sunny Agrawal**

So right now the remaining inventory is 175,000 ton, right?

**Gaurav Goel**

Yes.

**Sunny Agrawal**

In addition to this have you contracted any more raw sugar?

**Gaurav Goel**

No, as I said that we had contracted for 55,000 tonnes in this month. That was done at New York of July.

**Sunny Agrawal**

So you mean to say that 175,000 plus the 55,000 that will be arriving later on?

**Gaurav Goel**

No. 1.75 includes this.

**Sunny Agrawal**

This includes 55,000. So what will be our average raw sugar cost of this 175?

**Gaurav Goel**

It is very, very good.

**Sunny Agrawal**

The total white sugar inventory we have is of 1.16 lac ton and the rate is Rs 24 per kg?

**Gaurav Goel**

That is right. As of 1<sup>st</sup> of January.

**Sunny Agrawal**

What are the current realizations of RS and ENA?

**Gaurav Goel**

The RS price is presently in the range of Rs. 23-25. ENA is about Rs. 3 higher.

**Sunny Agrawal**

Will it be fair to assume that our FY10 average cane cost for the full year will be around Rs. 230-240 or will it be on a lower side?

**Gaurav Goel**

I think that should be a fair amount of an average cane price for the year.

**Sunny Agrawal**

What about the average realization for the full year?

**Gaurav Goel** Again, very, very tough to say. As we said earlier seeing the demand-supply scene we do expect an average of about Rs. 40.

**Sunny Agrawal** You are saying average of levy free as well as raw right?

**Gaurav Goel** Yes.

**Moderator** Thank you, Mr. Agarwal. The next question is from the line of Kavita Rawat: from Systematix Shares. Please go ahead.

**Kavita Rawat** What is the conversion cost at EBITDA level for cane sugar?

**Gaurav Goel** At EBITDA level you should take it at about Rs. 29.

**Kavita Rawat** Conversion cost?

**Gaurav Goel** The total cost with cane.

**Kavita Rawat** For this, what will be the other cane cost for the quarter?

**Gaurav Goel** About Rs. 235 is what we have taken as an average cane cost.

**Kavita Rawat** For Q1?

**Gaurav Goel** No, for Q1, average cane cost was Rs. 205.

**Kavita Rawat** So for the year is Rs 235?

**Gaurav Goel** Yes.

**Kavita Rawat** Is the cost Rs. 29 net of byproduct revenue?

**Gaurav Goel** Yes.

**Kavita Rawat** What would be the byproduct revenue at gross levels?

**Gaurav Goel** It will come to about Rs. 32.

**Kavita Rawat** Only that Rs.3 differential as this time we have quite a significant revenue stream from byproducts.

**Gaurav Goel** The byproducts are basically bagasse and molasses for which we take about Rs. 200 for molasses and about Rs 100 per quintal bagasse.



**Kavita Rawat** So that is transfer pricing rate that we are charging?

**Gaurav Goel** Yes.

**Kavita Rawat** What is the conversion cost for raw sugar?

**Gaurav Goel** Conversion cost comes approximately from the port. If we say that ex-price at port it comes in the range of Rs. 3,500 to 4,000 per ton.

**Kavita Rawat** That is inclusive of transportation and conversion?

**Gaurav Goel** Yes.

**Kavita Rawat** What is the process loss for raw sugar?

**Gaurav Goel** It comes to around 3-4%.

**Kavita Rawat** So this Rs. 3,500 to Rs. 4,000 is after adjusting for process loss?

**Gaurav Goel** Yes.

**Kavita Rawat** What is the cost of production for RS and ENA?

**Gaurav Goel** It all depends on the price of feed stock. So the conversion cost will be Rs..3 for RS and ENA would be about Rs.1.5 higher than RS.

**Kavita Rawat** This is only conversion cost, right?

**Gaurav Goel** Yes.

**Kavita Rawat** The material cost, as in the molasses cost, we can take at that transfer price of Rs. 200?

**Gaurav Goel** No, that again varies on a month-on-month and unit-on-unit basis. There is no levy on molasses.

**Kavita Rawat** For power, per unit cost per bagasse power as well as coal-based power?

**Gaurav Goel** That comes to around Rs. 4 to Rs. 4.5 at current pricing of Rs. 250 bagasse. Coal, it comes to about Rs. 4.5 at current pricing of USD 85.

**Kavita Rawat** So there is not much of a difference between the two?

**Gaurav Goel** No, the coal is a bit cheaper than bagasse right now. That is why we are using coal and saving on our bagasse.

**Kavita Rawat** I wanted to know the SMP liability because the FRP came in for the levy sugar. So is the industry as a whole, doing anything about that?

**Gaurav Goel** That industry of north is already having a case pending in High Court whereby the government has to re-fix the levy price based on the Supreme Court judgment. That is when they came out with the FRP guideline. They have to fix the cane price and of course because they have taken a rate at provision. Initial FRP guideline has the provision where we were not mandated to pay the SAP. They have taken away that provision, so, again, if you are open to fix up levy price below Rs. 160, if they do not account for Rs. 165 SAP then obviously the industry has the option to go to court.

**Kavita Rawat** But what I understand is that the Supreme Court decision has also called for a retrospective payment to the mill for that differential?

**Gaurav Goel** Yes, we have to pay a retrospective amount and all of that has been worked out. I guess, the Government of India might take a little bit of time; but it will definitely get worked out.

**Kavita Rawat** So we will be getting that amount sometime or the other?

**Gaurav Goel** Depends on the calculation they do. I mean it could be a little long drawn legal battle.

**Kavita Rawat** What is the kind of maximum increase you can see in cane acreage in U.P.?

**Gaurav Goel** See, we all do expect cane acreage to go up. On a maximum side, really tough to say right now, because plantings still hasn't started. The planting will start from next month, but anywhere in the region of 25% to 40% increase of cane can be expected for next year.

**Kavita Rawat** How does the yield look next year and the current year, are we setting better yields?

**Gaurav Goel** The yields surely have improved over last year, but what will be the yield for next year no one knows, because a lot will be

dependent on the monsoon and the climate that we see over the next nine months.

**Kavita Rawat**

What is the yield that we are getting in the current year?

**Gaurav Goel**

Current yields are in the range of around 500-600 quintals per hectare.

**Kavita Rawat**

And recovery rates?

**Gaurav Goel**

During this last month they were lower by about 0.3% for us, but we do believe because last year's plant cane had very poor recoveries, we do believe that this year's plant cane is better and we should end the year at almost the same sort of recovery as what we had last year. So last year the average for the group was 9.3%. We all believe that we will be able to close at that number.

**Kavita Rawat**

What is the diversion like? Last year diversion rate was very high. So this year is that lesser than that, like last year it was almost 60% in U.P.?

**Gaurav Goel**

Diversion is slightly lower than last year for sure. It is not substantially lower.

**Kavita Rawat**

By when are we expecting the crushing season to end?

**Gaurav Goel**

By end of March.

**Kavita Rawat**

Any impact on us after the ban on the sugar movement?

**Gaurav Goel**

Not as of now because fortunately for us we had adequate stocks prior to this ban coming up. So we all had no real impact as of now. But of course if this ban was to continue and we are not able to bring in large quantities of raws, then we might have an impact after the next month.

**Kavita Rawat**

That is after February?

**Gaurav Goel**

Yes.

**Kavita Rawat**

What is the capacity utilization that we are operating at?

**Gaurav Goel**

As of now if you really see, we have been able to augment our total production due to raw. But if we just see it from a cane

perspective, we are operating currently at 50% capacity. However, including raw it goes up to about 75%.

**Kavita Rawat** Will this amount to higher overheads?

**Gaurav Goel** Not higher overheads, actually lower overheads because my overheads are the same. Last year also, I operated at 50% capacity. But that year I had no opportunity to do raws. Because of this year's raw opportunity that we have got, our overall cost per bag will go down.

**Kavita Rawat** In terms of merchant power, that surplus export was only in the month of October?

**Gaurav Goel** Yes, that is right.

**Kavita Rawat** Nothing in the month of November and December?

**Gaurav Goel** No.

**Kavita Rawat** During season is 10% and off season 50%? Am I right?

**Gaurav Goel** No, during off season it is 10%, if you make power out of bagasse and 50% if you use alternate fuels apart from bagasse.

**Kavita Rawat** We are using coal?

**Gaurav Goel** Yes.

**Kavita Rawat** Apart from us, how many other mills do we have in off season operating with multi-feed boilers? In the industry, what is the competitive scenario like?

**Gaurav Goel** There are only a few in south and I think only two or three in north, apart from us who can do it out of coal in the season.

**Moderator** Thank you, Ms. Rawat. The next question is from the line of Sunny Agarwal from Finquest Securities. Please go ahead.

**Sunny Agrawal** What will be our Capex for FY10 and FY11?

**Gaurav Goel** They have not been firmed up yet, but they will be firmed up in our next concall that we will have in April the Capex numbers for the next two years would have be finalized. But it won't be very substantial.

- Sunny Agrawal** But will it be fair to assume that overall maintenance Capex will be near about Rs. 8-10 Crore in FY10?
- Gaurav Goel** Yes, of course. That much is expected.
- Moderator** Thank you, Mr. Agarwal. As there are no further questions I would like to hand the floor back to the management of Dhampur Sugar for closing comments. Please go ahead, sir.
- Gaurav Goel** Thank you. On behalf of Dhampur I would like to thank all of you for taking your time for this 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 web site at [www.dhampur.com](http://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. 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.

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