



Dhampur Sugar Mills Limited

Q4 & 12M FY2011 Earnings Conference Call Transcript

November 18, 2010 at 4:00 PM IST

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

Ishan Selarka: Thank you Farah. Good afternoon everyone and welcome to Dhampur Sugar Mills Q4 and 12-month FY11 Earnings Conference Call. Today we have with us Mr. Gaurav Goel, Managing Director, Mr. Arhant Jain, Executive President Finance from the company. We will commence this conference call with opening remarks from Mr. Gaurav Goel, which would be followed by an interactive question and answer session. You may want to know that some of the statements in this conference call maybe forward-looking. And a note to that effect is stated in the release sent out to you earlier. I would now like to invite Mr. Gaurav Goel to share his perspectives with regard to the Company's performance during the quarter and 12 months ended September 30th 2010 and the opportunities going forward. Over to you sir.

Gaurav Goel: Thank you. Good afternoon and a very warm welcome to all at Dhampur's Q4 and 12 month conference call. I would like to inform you that there has been a change in the accounting year for the period ended September 30th 2010 to ending March 31st 2011, that will be for 18 months. This has been done with the view to align our accounting standards to the guidelines of the IFRS as the ICAI has set out the timeline for April 2011 for compulsory switch over to the new standard. Therefore, the current results are for the 12 month period October 1st 2009 to September 30th 2010.

For the year 2009-2010, sugar production was at 18.9 million tonnes. We expect availability in this coming year to improve on the back of improved cane acreage, expected higher yields and cane for sugar. In this coming year, we expect India to produce 25.5 million tonnes. On the cane pricing perspective, for the state of Uttar Pradesh, the State government has raised the state

advised price from ₹ 165 per quintal to ₹ 205 per quintal for general varieties of cane. Also, with higher production expected in this coming year, we expect the government to permit export of surplus sugar. There are also talks of the decontrol in the sector. The current sugar prices stands at ₹ 27.5 per kg. We expect sugar prices in India to mirror international trends. Over the last few weeks, even though the international sugar prices have been strong, they remain extremely volatile. To give you a broad outlook on crushing, we expect crushing to start over the next two weeks for almost all sugar mills in the western and central part of Uttar Pradesh. The recovery rates are expected to be the same as last year or marginally higher.

Coming to our operational and financial highlights, our total revenues for the quarter and 12 months stood at ₹ 441 crore and ₹ 1,528 crore respectively compared to ₹ 293 crore and ₹ 948 crore for the last year. This was primarily because of higher sales volumes and higher sugar realizations. Our sugar segment has been impacted negatively primarily due to the high cost paid in the sugar season 2009-10 and softening of sugar prices from February of 2010. The total sugar production was at 4.60 lakh tonnes which also includes raw sugar, which we had imported in this current year, compared to 3.73 lakh tonnes of last year. Average free sales realizations during the quarter and 12 month period stood at ₹ 27 per kg and ₹ 30 per kg. The total inventory as of September 30th 2010 stands at 1.35 lakh tonnes of white sugar comprising of free sale levy and reprocessed raws at an average valuation of ₹ 26.25 per kg. For the 12 months ended, September 30th 2010 the sugar division reported higher revenues on the back of increase in sales volumes.

The sugar segments contributed 74.2% to the revenues at ₹ 1,418 crore during the 12 month as compared to 83.1% at ₹ 936 crore in the same period last year. For the quarter, the contribution stood at 91.7% at ₹ 401 crore as compared to 96% at ₹ 276 crore in the same period last year. Our power business partially mitigated the challenges faced in the sugar segment substantiating the fact of having built a strong and an integrated business model.

During the quarter and 12 month period, Dhampur in its power segment generated 2.28 crore units and 54.85 crore units of power respectively and exported 1.81 crore units and 38.48 crore units respectively. Our average realization for the quarter stood at ₹ 4.79 per unit and for the 12 months power realizations stood at ₹ 4.57 per unit, this compared to last year of ₹ 3.25 in the 12 month period FY2009. During Q4 FY11 power revenues increased eight times to ₹ 14 crore as compared to ₹ 1.8 crore in the corresponding period last year. For the 12 month period, power revenues stood at ₹ 403 crore compared to ₹ 156 crore last year thereby contributing 21% of total revenue.

Profits prior to interest and tax for the 12 month was higher by 121% at ₹ 91.5 crore against ₹ 41.3 crore. We remain positive on this segment as installation of multi-fuel boilers will enable us to enhance the duration of power plants in this coming year. We should facilitate even healthy earnings going forward. Our chemicals and ethanol division earnings were subdued during the 12 month and for the quarter due to high free stock cost and low realizations. The company during the quarter and 12 month produced 0.44 lakh kg and 112.23 lakh kg of chemicals and 44.7 lakh bulk liters and 144.9 lakh bulks liters of Rectified Spirits ENA and Ethanol. Revenues from our chemicals business for the quarter and 12 month improved to ₹ 22 crore and ₹ 90 crore respectively. PBIT for the quarter and 12 months period stood at a negative of ₹ 7.3 crore and ₹ 15 crore respectively.

Going forward, we continue to focus on targeting business opportunities from the chemicals, Ethanol and Rectified Spirit segments that offer better margins. We have already started to supply Ethanol to Oil companies at ₹ 27 per liter. We believe that this segment should also give positive contribution in this coming year. Our interest cost has increased at ₹ 22.4 crore for this quarter. This is mainly due to higher utilization of working capital on account of high sugar inventories, which we expect would be liquidated in the next quarter. For the quarter and 12 month period net loss stood at ₹ 73.5 crore and ₹ 44.5 crore. The term debt as of September 30th 2010 stands at ₹ 523 crore compared to ₹ 591 crore in the same period last year and ₹ 555 crore as on June 30th 2010. We foresee interest to come down in the coming quarters because of reduction of our long-term debt and our working capital limits. 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. Thank you.

- Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question comes from the line of Pramod Bhat from Bonanza Portfolio. Please go ahead.
- Pramod Bhat:** What do you foresee as a possible recovery rate for the current year based on crushing estimates?
- Gaurav Goel:** Last year our average recoveries for the group were 9.24%. We believe that we may be able to improve this to around 9.54% this coming year mainly due to better monsoon. We believe that even though, last year our plants were closed in March, this year we will be able to run for the whole of April, which are both peak recovery months.
- Pramod Bhat:** Regarding the power generation, what do you expect from the coal side and has it been taken care of?
- Gaurav Goel:** Last year we had used both coal and bagasse. But in the coming year we do believe that our power margin should improve and total power sales should also be higher mainly because there will be more availability of bagasse due to the higher cane. Our reliance on coal should come

down in this coming year.

Pramod Bhat: How many units do you expect to supply to the grid in the coming year, out of bagasse and out of coal?

Gaurav Goel: We do believe that maximum of the power that we will export during this coming year would be out of bagasse. It will be tough to quote a number or a track of percentage as of now,

Pramod Bhat: What do you foresee the pricing of sugar to be as a result of increased international prices? Do you expect it to correct much more from here?

Gaurav Goel: Yes, the global markets have gone up by almost 20% in the last few trading days. We reached a peak of around 33 cents last Wednesday and then it crashed to 26 cents on Thursday and Friday. Because of the overall production we are expecting out of Brazil, I do expect these prices to stay firm and I do believe that these prices would be in the range of 27 to 30 cents over the next two quarters. This will be dependent on two things. The first is whether India will produce 25 million tonnes or higher than that and the export policy of the government, and second, whether the 580 million tonnes of expected cane production in Brazil will remain at 580 million or go higher.

Moderator: Our next question is from the line of Abhilasha Satale from Techno Shares and Stocks. Please go ahead.

Abhilasha Satale: Are you paying the SAP amount or something above that?

Gaurav Goel: As of now, the plants have not yet started, so that is why we have not procured cane as of now, but from our point of view we don't believe that we will be paying anything higher than SAP for this coming year.

Abhilasha Satale: Are farmers also of the mind that ₹ 205 would be the viable price for sugarcane?

Gaurav Goel: Yes.

Abhilasha Satale: What are your current realizations?

Gaurav Goel: Currently our prices are at about ₹ 27.50 for our normal sugar and at about ₹ 28.30 for refined sugar.

Abhilasha Satale: Based on the current scenario, even at ₹ 25.5 we will be ending up this season with around 5-6 million tons of inventory. So if government allows exports, then how much will India export to the world market and which region would be benefited out of that? Do you think it will be UP or southern players? How is the viability of exports?

Gaurav Goel: I do believe that government is as of now thinking to allow exports in the range of 1 to 2 million tonnes and this will be open to tender for the whole of India. We do believe that it will be more of an advantage for plants that are in Maharashtra or in the South due to their proximity to the ports, and they will be earning better margins out of this export, but you can be rest assured that there will be exports even from Uttar Pradesh.

- Abhilasha Satale:** At current prices, considering the transport cost, the spread at the domestic level at current cane prices and domestic sugar prices, now the margin is around ₹ 2.50 to ₹ 3.00 So now, the ,margin is ₹ 2.50 to ₹ 3 even in the domestic market. How much additional spread are you expecting in the export market, regionally?
- Gaurav Goel:** As of now, market has come off by about USD 80 in the last 4 to 5 trading days. If we look at the last week, we could have got an average realization of more than ₹ 30, after all net cost. Currently it is down to around ₹ 28. So even at current prices, international prices are higher than Indian prices. And if they all go up, then obviously our margins go up. In addition, it is very important for us to be able to export our sugar out of India so that our stocks stay in control. Whether the export takes place out of Uttar Pradesh or Maharashtra or south of India is a separate point, but the other point is that we would really want the government to think about what sort of stocks they want to maintain in the country.
- Abhilasha Satale:** So basically it depends on the international price as well as domestic availability. So is your view that it is not worthwhile to export at current prices for these reasons?
- Gaurav Goel:** Yes.
- Abhilasha Satale:** On de-control, what can we expect going forward?
- Gaurav Goel:** I think there is a meeting, which has been called by the state governments next month, in which they are taking up this topic, and the main thing that I expect out of this is the levy which the sugar mills have to give will reduce. Second, there will be no monthly release. And the third point, which is slightly contentious right now, is the de-reservation of all cane area.
- Abhilasha Satale:** we anticipate these things happening in the current sugar year?
- Gaurav Goel:** We all know that the government is seriously thinking about this, and we hope that in the next 2 to 3 months we hear some news on that.
- Abhilasha Satale:** Regarding SAP prices in UP, what is the status on the litigation going on in the court against the UP government and mills?
- Gaurav Goel:** They had met last week on Thursday, and they all gave the government time until the 21st to file a counter. We do expect that within these coming months we should get some sort of news coming out of that. We have said the SAP is not justified and is not legal after the FRP has come into play.
- Abhilasha Satale:** The cost of the inventory we are holding is marginally higher than our current cost of production, so will you off-take it in the current quarter or will it be phase-wise?
- Gaurav Goel:** That will depend on the orders that we get from the government on the release, but we do think that in this quarter, we will be able to finish most of this sugar.
- Moderator:** Our next question is from the line of Jharna Majumdar from Financial Technologies. Please go ahead.

- Jharna Majumdar:** Sir, what is your current debt as of September 30th? Are you planning to refinance your debt and how do you plan to bring it down?
- Gaurav Goel:** We do not plan to refinance any of our debt. The normal repayments are taking place. Our debt as of September 30th is ₹ 523 crore.
- Jharna Majumdar:** But you said you expect interest cost to come down?
- Gaurav Goel:** That is mainly due to the working capital because of the high stock that we had in this year. That is why the interest rates and interest cost went up. Next year, we do believe that because our working capital would be lower than this year and because of the repayment of our term debt that interest would be lower in this coming year.
- Jharna Majumdar:** What do you expect your CAPEX to be in the New Year?
- Gaurav Goel:** As of now, there is no CAPEX plan.
- Jharna Majumdar:** What kind of revenue are you expecting in the next quarter October-December?
- Gaurav Goel:** I do believe it should be in line with what you saw in the Q4.
- Jharna Majumdar:** Can you tell me what your current cash reserves are?
- Arhant Jain:** Current cash is ₹ 52 crore as on 30th September as per the balance sheet.
- Moderator:** The next question is from the line of Nirav Vasa from SBICap Securities. Please go ahead.
- Nirav Vasa:** In UP the payment is around ₹ 200 per quintal. What is the kind of euphoria that the farming community has? Also, what is the status of the ratoon cane that will be available in the next crushing season?
- Gaurav Goel:** As of now, the price has been fixed at ₹ 205 per quintal and the farmers seem to be happy with that. The crop seems to be healthy as of now. However, because of the very late monsoons, the recoveries as of now are slightly lower. So that is the only area of concern, and with this sort of pricing, we don't expect too much cane to get diverted to other crops in this coming year.
- Nirav Vasa:** As far as the sick-units, which are up on the blocks by the state government, in Bihar are concerned, can you just throw some light on what the action is on the counter?
- Gaurav Goel:** I don't think there is any action which has happened on that in Bihar. As far as I know, a few of the plants which went on sale in UP have got sold.
- Nirav Vasa:** What is the pricing at which these plants have been sold? And who are actually buying these plants? Are they existing sugar owners from the unlisted space?
- Gaurav Goel:** It varies from plant to plant, from about ₹ 50 crore to about ₹ 120 crore. There were some PSUs and a few of the real estate players who have bought these plants.
- Nirav Vasa:** In this crushing season, the revenues that we divert from sugar are going to be under pressure because of increased production. So is the company seriously looking for diverting more juice towards ethanol production?
- Gaurav Goel:** As of now with the present price of sugar and with the present price of alcohol, it does not make

sense to divert juice into alcohol. Therefore, we will continue to use most of our juice for manufacturing of sugar. As far as the point goes on sugar pricing, you may see some sort of tightening of pricing going forward. However, in case exports are allowed of 1 to 2 million tonnes, I do believe that the pricing should stay stable and should not come down too much. Also, this year I do believe pricing to remain in the range of ₹ 25 to ₹ 28 per kg.

Nirav Vasa

Since the government has a habit of keeping sugar in the buffer, what could be the maximum amount of sugar according to you that could be exported from the country?

Gaurav Goel:

We expect India to produce 25.5 million tonnes and I think that a maximum of 2 million tonnes will be allowed in exports in the next few weeks.

Moderator:

Our next question is from the line of Falguni Thacker from JetAge Securities. Please go ahead.

Falguni Thacker:

What could be the conversion cost for sugar in the coming season? Would it be closer to ₹ 3 or upwards?

Gaurav Goel:

₹ 3 is the right number.

Falguni Thacker:

So is it fair to assume cost of sugar, excluding interest but inclusive of depreciation, is ₹ 26.20 per kg?

Gaurav Goel:

That seems to be slightly on the higher side but fair

Falguni Thacker:

What would be similar cost for ethanol, excluding interest but including depreciation?

Gaurav Goel:

It is dependent on the cost of molasses, but we do believe we can achieve good margins from this.

Falguni Thacker:

How much do you think PBIT per liter in case of ethanol will be this season?

Gaurav Goel:

I think it would not be below ₹ 2.5 per liter.

Falguni Thacker:

Will not ₹ 2.5 per liter be too less? Will molasses determine that?

Gaurav Goel:

No, Ethanol. If I transfer it at a lower price, then my sugar profits come down and my alcohol profits go up. For us, it is an automatic hedge because of the ethanol policy as we saw in the last 12 months.

Falguni Thacker:

So what do you feel should be the transfer price for molasses for this season?

Gaurav Goel:

That will be done on market price. All transfers of pricing of all products whether it is bagasse or molasses is done as per the market price.

Falguni Thacker:

So what is the ruling market price of that?

Gaurav Goel:

As of now, the price of molasses is around ₹ 3,000 per ton.

Moderator:

The next question is from the line of Jharna Majumdar from Financial Technologies. Please go ahead.

Jharna Majumdar:

Can you please give us the average sugar prices that we will see in the next 2 to 3 months?

Gaurav Goel:

As of now, as we said the price is around ₹ 27.50 to ₹ 28. Over the next two months, I believe

the prices may come down by about a rupee. So we can expect prices of ₹ 26.50 to ₹ 27 once the sugar mills start their operations.

Moderator: Our next question is from the line of Abhilasha Satale from Techno Shares and Stocks Limited. Please go ahead.

Abhilasha Satale: Cane is still currently more profitable than other crops barring one or two, but looking at this scenario, what do you feel the next year crop output could be? Will it be in excess of the current year?

Gaurav Goel: It will be dependent upon what sort of sugar prices we see over the next couple of quarters. The main reason for sugar coming down is non-cane price payment. If we see sugar price coming down and sugar mills are not able to pay cane price, you will see cane coming down and not going up. Secondly, at a price of ₹ 205, it almost compares to the earnings that a farmer can get out of wheat, rice and the other crops. So I don't believe that even if cane production were paid fully that cane production would go higher in 2012.

Abhilasha Satale: So is sugarcane not as profitable as other crops even at ₹ 205?

Gaurav Goel: It is the same. It is not more than other crops.

Abhilasha Satale: Does that mean comparative profitability is not so high that farmers would divert to or from other crops?

Gaurav Goel: Yes, that is why the cane price payment is important because if there is any delay in payment to farmers should sugar prices come down, that will have a very negative impact on the cane planting for the next year.

Abhilasha Satale: But if we are anticipating ₹ 28 to ₹ 29 as average realizations for the current year, wherein sugar companies would have healthy margins of around ₹ 2.5 – ₹ 3 per kg, can we see next year's crop to be better than this year?

Gaurav Goel: These are early days, but it can be better by a million tonnes, but I do not expect it to be more than that.

Moderator: The next question is from the line of Chetan Thakkar from HSBC Invest Direct. Please go ahead.

Chetan Thakkar: Is there any inventory of raw sugar right now with you?

Gaurav Goel: As of 30th September, we had inventory of raws, but most of it will get liquidated in this quarter.

Chetan Thakkar: How much would it be?

Gaurav Goel: The total inventory was at 1.35 lakh tonnes

Moderator: Our next question is from the line of Jayesh Gandhi from Morgan Stanley Mutual Fund. Please go ahead.

Jayesh Gandhi: Our sugar division has made a loss of ₹ 21 crore in the full year, roughly. Would you be able to break it up into loss because of raw sugar imports and loss due to own crushing?

- Gaurav Goel:** Yes, I can break that up for you. We actually had no overall loss due to the imported raws, which we have brought in over the 12 month period. The maximum loss happened due to the levy sugar, which we gave to the government. Out of our available sugar, 20% is levy sugar sold at ₹ 18. So that is a main reason of the loss.
- Jayesh Gandhi:** Did the ₹ 9 loss per kg on sugar due to the levy lead to the ₹ 21 crore loss at the EBITDA level?
- Gaurav Goel:** Yes.
- Jayesh Gandhi:** You said the current cost of producing sugar from sugarcane comes to around ₹ 25-26 and the prices although slightly higher now are expected to be in a range of ₹ 27-28. So is the difference between the sugar price and the cost around ₹ 1 to ₹ 2?
- Gaurav Goel:** Yes. As of now, you can expect ₹ 26 to be the gross price. Out of that, you have to take into account the sale of by-products such as bagasse and molasses, which will make the cost of producing sugar, ₹ 24.
- Jayesh Gandhi:** So if the things remain in the current state for the next 12 months, will the sugar division make profits? Will the power division make profits instead?
- Gaurav Goel:** If we say sugar prices in the range of ₹ 26 to ₹ 28, then the sugar side will also make profit but obviously if it becomes lower than that, then you will see almost close to zero profits in that segment. Then we will make more money this year out of power and ethanol side than what we did last year.
- Jayesh Gandhi:** The power sales is ₹ 402 crore and the average realization comes do something like ₹ 7 per unit. There seems to be a discrepancy. Is that what we have?
- Gaurav Goel:** No, our average for the 12 months is about ₹ 4.60 per unit, but there is also the steam which is sold from the power units, which is given both to the sugar plant and to the chemical plant. Steam sales are also included in the power revenues.
- Jayesh Gandhi:** Coming back to the sugar division, does profitability depend on this price level which you suggested as well as whether the levy quota currently is dismantled or otherwise?
- Gaurav Goel:** The levy quota, which last year was at 20%, is being brought down to 10% for this coming year. So automatically our loss will come down. Secondly, we do expect increased levy price for the year as FRP has been taken up by ₹ 100 per tonne. We expect the levy price to be increased by ₹ 1. Now because the cost per bag which was ₹ 27-28 is expected to come down this year to ₹ 24,, the mark-to-market loss will come down automatically even on levy sugar. Also, because of exports that we believe will be allowed, we trust that our sugar segment even post interest at the best case should break even and not make a loss, as it did this year.
- Jayesh Gandhi:** Do you have any estimate on total crushing that you think you can do this year?

Gaurav Goel: Last year we have crushed 32.74 million tonnes. This year we do believe that a 20% to 25% increase in cane crush is expected for our four plants.

Jayesh Gandhi: Did you say the recovery would be around 9.5%?

Gaurav Goel: Yes, it is expected to be 9.5%.

Moderator: Thank you. As there are no further questions, I would like to hand the floor over to Mr. Gaurav Goel for closing comments.

Gaurav Goel: Thank you everyone for joining us on the Q4 and the 12 month numbers for Dhampur. If you have any further questions please feel free to contact us on e-mail or please visit our web site at www.dhampur.com thank you once more.

Moderator: Thank you. On behalf of Dhampur Sugar Mills Ltd that concludes this conference call. Thank you for joining us and you may now disconnect your lines

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