



Dhampur Sugar Mills Limited

Q6 & 18M FY2011 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen good evening and welcome to the Dhampur Sugar Limited Q6 & 18M FY2011 results conference call. As a reminder 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 this conference call, you may signal an operator by pressing * and then 0 on your touchtone telephone. 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 Farah. Good afternoon and welcome to Dhampur Sugar Mills Limited Q6 & 18M FY2011 earnings conference call. Today, we have with us Mr. Gaurav Goel – Managing Director and Mr. Arhant Jain – Executive President (Finance) from the Company. We will commence this call with opening remarks from Mr. Gaurav Goel and Mr. Arhant Jain following which we will have an interactive question and answer session. Before we begin, you may want to know some of the statements made or discussed in the conference call may be forward-looking in nature and a note to that effect was stated in the release and concall invite sent to you earlier. I would now like to invite Mr. Gaurav Goel to share with us his perspective with regards to the Company's performance during the Q6 and 18M ended March 31st, 2011, the opportunities going forward.

Gaurav Goel: Thank you Ishan. Good afternoon and a very warm welcome to all at Dhampur's conference call. I would like to begin by sharing my perspective on the sugar sector and talking about the operational performance following which, Mr. Arhant Jain will take you through the financial highlights of the Company.

To begin with, the country's cane sugar production during the sugar season 2010-11 is expected to be in the range of 24 to 24.2 million tons. The key reason attributed towards this rise is increased availability of cane for sugar. Also the diversion of cane for gur has been lowered as the manufacturers were paying a lower cane price due to a decline in the prices of gur. However, expect inventory level to remain largely unchanged compared to the last sugar season despite the government permitting 0.5 million tons of sugar export under OGL and also 1.5 million tons which has been allowed for exports under the ALS and 0.5 million tons has also been exported under the re-export of raw sugar.

To give you a perspective of cane cost, the mills paid the farmers a SAP of Rs. 205 per quintal for last year. Due to this lower sugar cane price vis-à-vis last season 2009-10, the Company has been able to produce sugar at reasonable cost. We expect mills to generate a reasonable margin on sugar production given stable sugar realizations. Domestic sugar realizations are currently around Rs. 28 to 29 per kg and we expect it to be range bound considering higher sugar production in the current sugar season and the recent correction in the international sugar prices due to a healthy Brazilian sugar outlook and higher supply from Thailand.

Let me now take you through the operational highlights:

To give you a perspective on cane crushing, we started crushing in all our mills in the third week of November 2010. We crushed 33.1 lakh quintals of cane as compared to 32.74 lakh quintals of cane crushed in sugar season 2009-10. We witnessed an improvement in recovery rates to 9.34% in the current season compared to 9.24 last year. The Company during January to March 2011 crushed 22.1 lakh tons of cane compared to 20.49 lakh tons of cane in January-March, 2010. Recoveries for the quarter stood at 9.59% compared to 9.54 in Q2 of FY2010, taking the cane production to 2.12 lakh tons of sugar in the current quarter. The inventory as on March 31st, 2011, stands at 2.2 lakh tons of sugar with average valuation of 25.14 per kg for a free sale sugar and Rs. 18.84 per kg for levy sugar. Average realization of free sugar during the quarter stood at Rs. 29.61 per kg.

Our power and ethanol businesses continue to augment performance substantiating the benefits of having built a strong and an integrated business model. During the quarter and eighteen months period, we generated 24.2 crore and 91.6 crore units of power respectively and exported 15.3 crore units and 62.2 crore units respectively. Our average realization for the quarter stood at Rs. 4.19 per unit compared to Rs. 3.93 per unit in Q2 FY2011. For the eighteen month period, average power realization stood at Rs. 4.39 per unit.

Our chemical and ethanol division delivered better performance as a result of reduced raw material price and improvement in ethanol realizations. The Company during the quarter and 18M FY2011 sold 41 lakh tons and 198 lakh tons of chemicals and 109 lakh bulk liters and 406 lakh bulk liters of RS/ENA/Ethanol.

To end, our strong operating and integrated business model stronger balance sheet makes us confident of the delivering sustainable results in this dynamic sugar sector going forward.

With that I conclude this sector overview and I would now hand over to Mr. Arhant Jain to take you through the financial performance of the Company. Thank you.

Arhant Jain: Good afternoon and thank you once again for joining us on the call. I would now like to take you through the financials highlights of the Company for the quarter and eighteen months ended March 31, 2011.

Total revenues in Q6 FY11 were higher by 18.1% at Rs. 350 crore compared to Rs. 296 crore in Q2 FY11. This was on the back of higher contribution from power and chemical businesses as a result of increased sales volumes and improved realization. The revenues for the 18 months' period ending March 31st, 2011, stood at Rs. 2,374 crore.

Our interests cost despite repayment of long-term loan stood flat at Rs. 24 crore. This is primarily attributed to higher utilization of working capital on account of increase in sugar inventories combined with higher interest rates. For the quarter and eighteen months period ending 31st March, 2011, profit stood at Rs. 52.6 crore and Rs. 13.1 crore respectively.

Moving onto our balance sheet, we repaid term loans of Rs. 104 crore (net) during the 18 months' period thereby bringing our debt to Rs. 487 crore as of 31st March, 2011 compared to Rs. 591 crore as of 30th, September, 2009.

Allow me now to take you through the business wise performance.

As mentioned earlier, the power operations continue to augment performance. During Q6 FY11 power revenues increased to Rs. 173 crore contributing 30% to total revenues. For 18 months' period our revenues stood at Rs. 655 crore. PBIT for the quarter and 18 months' period stood at Rs. 64 crore and Rs. 180 crore respectively.

Sugar division revenues in Q6 FY11 were higher by 7% at Rs. 357 crore on account of higher sales volumes despite lower sugar realizations compared to last year. For the eighteen months, revenues from the sugar business stood at Rs. 2,359 crore. The sugar segment contributed 62% and 74% to the revenues during Q6 and 18M FY11 respectively. PBIT for the quarter improved multifold due to higher sales volume. However, earnings in this segment during the 18 months' period were muted as a result of sales of high cost inventory consequent to high cane cost paid to the farmers in sugar seasons 2009-10 and decline in sugar realizations post February 2010.

Revenues from our chemical business for the quarter and 18 months' period improved to Rs. 47 crore and Rs. 184 crore respectively. PBIT for the quarter stood at Rs. 12 crore. This segment registered better earnings performance as a result of reduction in raw material costs, higher sales volume, and improved ethanol realizations.

Going forward, we will continue to focus on targeting business opportunities in power or ethanol segments that are offering better margin. These on a broad level 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 very much sir. Our first question is from the line of Ankita Parakh from India Infoline. Please go ahead.

Ankita Parakh: Can you repeat the production figures for sugar and power?

Gaurav Goel: Sugar production stands at 3.1 lakh tons in sugar season 2010-11. In the power segment, we generated 91.6 crore units out of which 62.2 crore units were exported and the balance was for captive consumption.

Ankita Parakh: Going forward are you going to be more focused on power and ethanol, than sugar or maybe would it be a combination of both?

Gaurav Goel: Our whole aim over the last two years is to increase our capacities in power and ethanol mainly because sugar being slightly more cyclical in nature, we wanted to create sustained business model where these two will continue to earn us profit during the sugar downturn and when sugar comes into an upward cycle, these still contribute. So basically to offset the cyclicity of sugar, we will keep on concentrating and increasing our capacities on the side of power and on the side of Ethanol.

Ankita Parakh: Can you give some guidance on your Capex plans?

Gaurav Goel: There is no real Capex plan for this year. We will be making ourselves more efficient. So there is no increase in any of the capacities for this year.

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

Ambar Taneja: Your power and ethanol division seems to have given you improved revenues in this quarter which I believe will be reduced once the availability of bagasse and molasses dies down. I just wanted to know about the availability of bagasse and molasses over April to June quarter, because I am given to understand that July onwards, the inventory comes to zero and at least in power you have to start generating from coal. Secondly, we have been reading a lot of reports saying that sugar prices cannot go any lower and it is a pretty tight market, there is no inventory, etc., and the production is 24 million tons. I just want to know what is your view on sugar prices at Rs. 28 to 29 in UP and how do you see them panning out till crushing next year.

Gaurav Goel: We have got adequate availability of both the products i.e. for 140 days. So we can run both these apart from the time of monsoons, where we will close down the plant for 45 days. Apart from that both these will operate for almost the whole of the off-season. Let me clarify here that power would be at half the capacity and ethanol capacities would be 100%.

As far as your other question goes on sugar prices, I personally believe that sugar prices will just about stay stable. I do not expect prices to go up too much over Q3 and Q4. I do believe that the prices in the range of Rs. 28 would be the prices that we will see even over the next two quarters. I do not expect sugar prices to go over that range or there might be 28-29 but that will be it. I do not expect them to cross 30.

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

Nillai Shah: Any visibility of coal-based power supply for this year?

Gaurav Goel: It is very-very low. As of now we have bought some coal at the starting of the year. So we are producing power out of coal also at this point of time, which is being sold at a price of Rs. 5 per unit to UP SEB.

Nillai Shah: Is that a reason for blended realizations being much higher than the Rs 4 compared to realizations the other mills are getting?

Gaurav Goel: Yes.

Nillai Shah: So, is that the reason why you will be continuing with the power business even in the second half because you got the bagasse left over?

Gaurav Goel: Yes, we have got fuel leftover and also we will be operating our plant for ethanol. So we will be running our boilers and exporting the surplus power to the grid. So it makes total sense for us to operate the power plant because it sort of brings down my cost of ethanol. At the same time, it gives me a positive margin even on the side of power.

Nillai Shah: What is the unit produced for this particular quarter?

Gaurav Goel: For this quarter, we produced 24.2 Crore units and out of that, 15.3 Crore units were exported.

Nillai Shah: So, would it be fair to assume that about 25 to 30 Crore units will be produced over the next two quarters too?

Gaurav Goel: Combined here, not over the next two quarters, as I mentioned earlier, we will be only running 1 boiler each in two of power units, out of the three boilers.

Nillai Shah: And the pricing for this because, will this be under the UPERC policy of Rs 5 per unit?

Gaurav Goel: Yes, that is right.

Nillai Shah: So your realizations would actually move up in the next two quarters?

Gaurav Goel: Yes.

Nillai Shah: Do you believe that the balance is actually tight?

Gaurav Goel: See, the balance might be tight but the sugar market is driven by futures and because next year, people are expecting sugar to go up to around 25.5 to 26 million tons, that is why seeing next year's production, I do not foresee the sugar prices to go up in the next two quarters.

Nillai Shah: Is that your assessment of couple of million tons higher next year?

Gaurav Goel: Yes, that is my assessment means 25.5 to 26 is what we all believe India will produce next year.

Nillai Shah: What are the total exports in your view out of the country because ISMA came out with the numbers of 2.2 million tons and I always thought about 1.7 million tons?

Gaurav Goel: No, 2.2 is the right up till March because if we really see is about 1.5 was under ALS and about 500,000 tons was the raw which has been brought in and then was re-exported. So this 2.2 million is the right amount and the 0.5 million tons under OGL mainly has happened post-March.

Nillai Shah: And out of the country that 0.5 million tons?

Gaurav Goel: Out of that, ROs which have been issued for 0.28 million tons.

Nillai Shah: So, at least 2 million tons is getting out of the country?

Gaurav Goel: That is right.

Moderator: Thank you. Our next question is from the line of Chanchal Biswas from Dalmia Securities. Please go ahead.

Chanchal Biswas: I would like to ask a question regarding the other expenditure for the eighteen months period, which increased from Rs. 94 Crore to Rs. 226 Crore. Can you give me some break up and the reason for that increase?

Gaurav Goel: This is basically because of what you have seen over September 2009 to March 2011 was mainly due to the raw sugar which we had imported during the last sugar season. So the processing cost of that has been taken under other expenditures and that is why that area that head has gone up. Around 1.9 lakh tons of raw was imported.

Chanchal Biswas: From the industry point of view, everybody is talking about the production side. Can you give me some light on the consumption side because ISMA is showing the same figure of 22.5 or 22 million tons every year?

Gaurav Goel: For the current year, our estimate for consumption stands at about 22.5. Next year again as far as what we have seen, the growth which is happening on the sugar side, we do believe that this can go up to 23 to 23.5 in 2012.

Moderator: Thank you. The next question is from the line of Rahul Soni from SKS Capital, please go ahead.

Rahul Soni: Your other operating income is negative against the profit of Rs. 11.37 crore last quarter. Can you please throw some light on that?

Gaurav Goel: Basically the mark to market loss on foreign exchange, the foreign debt that the Company has because of fluctuations on the dollar. This is what we club under other income.

Rahul Soni: What is your realization in ethanol for a quarter and last year?

Gaurav Goel: As of now, the price has been fixed at 27 per liter and that has been our realizations. We do expect it to be re-fixed with an increase in petrol prices. However, the notification has not come out yet.

Rahul Soni: Yes, obviously because petrol and diesel prices have been hiked in the recent past. So how soon you expect the government to take a call on ethanol prices?

Gaurav Goel: Very hard to say right now but we are hoping it to be done very soon.

Rahul Soni: What is your current sugar inventories and cost for these?

Gaurav Goel: As on 31st March, our inventory was 2.2 lakh tons of sugar and the free sale has been valued at Rs. 25.14 per kg and the levy has been valued at 18.84 per kg.

Moderator: Thank you. Our next question is from the line of Sunny Agrawal from Aditya Birla, please go ahead.

Sunny Agrawal: Can you throw some light on global sugar production. What is happening in major exporting countries like Brazil, Thailand, and Australia?

Gaurav Goel: Let me start with Brazil because that is the most important country. At the starting of the year, which was in January, we had expected their crop to be at 570 million tons and that is why we all saw that international prices had gone up in January and February. But when the actual season started in the end of February to early March, their cane yields have gone up and now the total cane availability looks to be in the range of 590 million tons. So, on that perspective around 32 million tons of sugar is what is expected to be produced out of this year. This year also Thailand has had a better crop but it is early days for next year. So basically because of the higher crops in Brazil, we have seen that the global prices have

come down by about 300 points and I do believe that global prices would be range bound i.e. from 20 to 23 cents per pound over the next three months.

Sunny Agrawal: You mean to say that as far as import to India is concerned, it might be feasible closer to the port and not interiors.

Gaurav Goel: Yes, I do not believe that there will be any imports of sugar at this point of time into the country.

Sunny Agrawal: Can you throw some light in case government goes for decontrol measures. Which are the first ones which the government can take a step ahead?

Gaurav Goel: See, the two major aspects on which the government is seriously thinking about are; one, doing away with the levy quota and secondly on the side of release. The monthly release which is issued as of now that needs to be taken away. So these are the two first steps which they will take in this regard.

Sunny Agrawal: When do you expect the government to move ahead on this front?

Gaurav Goel: Very hard for me to say as we have been expecting it for the last few months. The file is totally ready and is pending in the EGoM. So we are hoping that in this coming parliamentary session, it should get passed.

Sunny Agrawal: So what you are saying is that decontrol could be in terms of pricing or in terms of quota. They will do with the quota itself or they will continue to procure quantity from the sugar mill but the pricing may be free something like that?

Gaurav Goel: As of now, that is exactly what has been proposed and the government may buy it from the open market.

Moderator: Thank you. Our next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: I have seen a trend that whenever the inventory of the companies go down, we see some kind of price decline and I have seen the same trend over the last year; if you see the inventory days has been drastically has been reduced. Just wanted some light on that if you could tell me?

Gaurav Goel: The basic reason about sugar prices, what you are saying should have been through i.e. if inventory is lower than prices would like have been higher but like out here basically because of the fact that next year's production is again estimated higher than what it was this year. So if they make India to produce 25.5 to 26 million tons with the consumption of 23 million tons. So, basically due to that reason we all have seen sugar prices have not moved up. Obviously, in case India in 2013 which is still very-very far

ahead, we do believe that the crop will come down then you can expect in Q3 and Q4 of 2012 sugar prices to would start to go up. Everything is to do with future outlook not with the current inventory numbers.

Moderator: Thank you. We will have a question from the line of Ankita Parakh from India Infoline. Please go ahead.

Ankita Parakh: Can you just tell me regarding your cash balance as on March 31, 2011.

Gaurav Goel: Rs. 24 Crore.

Moderator: Thank you. I would like to hand the floor back to the management for closing comments.

Gaurav Goel: Thank you so much. I would like to thank all of you for joining us on our conference call. If you have any further questions please feel free to visit our website at www.dhampur.com or to e-mail us on mail@dhampur.com. Thank you again.

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

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