



Balrampur Chini Mills Limited

Q1 FY17 Earnings Conference Call

August 12, 2016

Karl Kolah: Good evening everyone, and thank you for joining us on Balrampur Chini Mills' Q1 FY17 results conference call. We have with us today Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills and Mr. Pramod Patwari, Chief Financial Officer of the Company.

We will now like to begin the call with brief opening remarks from the management following which we will have the forum open for discussion.

Before we begin, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the results presentation shared earlier.

I would now like to invite Mr. Saraogi to make his opening remarks. Over to you Mr. Vivek.

Vivek Saraogi: Thank you, Good Evening and thank you for joining us on Q1 FY17 Earnings Conference Call. I will begin by giving an update on the latest developments following which Pramod will take you through the financial highlights.

Early estimates based on ISMA satellite data shows next year's production to be around 23.2 million tonnes. This is around 1.9 million tonnes lower than the current season's production of 25.1 million tonnes. However, a clear picture will emerge by end of September.

The lower production is primarily due to a decline in Maharashtra's production which is expected to be lower at 6.4 million tonnes against 8.4 million tonnes in the previous year. As you would see the entire decline is attributed to Maharashtra. Similar to Maharashtra, sugarcane area in Karnataka is also expected to decline; Sugar production in the upcoming season is expected to be 3.2 million tonnes against 4.1 million tonnes in Karnataka.

Unlike Maharashtra, Karnataka, weather so far has been good in U.P. U.P. is expected to produce higher than last year production of 6.8 million tonnes, this is primarily due to higher yield expectation and because of particular early varieties, also there has been a marginal increase in the cane area.



Therefore, with an estimated production of around 23.2 million tonnes and opening balance of 7.1 million tonnes and with estimated domestic consumption of about 25.5 million tonnes. Closing stock is expected to be around 4.8 million tonnes, this would be as on 1st October 2017.

I just like to inform everyone that crushing begins in December and in the last five years the average production of October and November has been around 1.8 to 2 million tonnes. Many parts of the country crushing also begins in October, special season of south.

So moving to Balrampur's performance, we reported strong performance in the sugar segment owing to better realization and steady sales volumes. In Q1 FY17, we witnessed improved average realization of 34.56/Kg. Prices currently are in the region of closer to 36/Kg. Given the evenly balanced demand-supply scenario, we anticipate realizations to be stable. We sold about 18.9 lakhs bags and are currently holding 39 lakhs bags at a cost of Rs.27/Kg.

On the Distillery segment, we have allocated almost all our capacity towards Ethanol and the supply to OMCs has been encouraging specially after the first quarter. With Government planning to further increase ethanol blending, we continue to remain optimistic on this segment. We will discuss the latest developments in the Q&A Session. We have made an investment of about Rs.225 crore in our Incinerator Boilers and this will also enable one of our Distilleries to expand from 60 KL to 100 KL. We will now be able to run our Distilleries on an average of 300-days, should we have enough molasses.

To conclude, I would like to state that our principle of conservative dynamism approach has helped us to create a robust operating model. We anticipate strong performance in the year on the back of healthy contribution to Sugar segments and enhanced profits in our Distillery division. Cogen would remain stable, we will discuss the volumes and we will continue to focus on reducing debt, rewarding shareholders, and utilize our existing facilities to strengthen our operational and financial performance.

I would like to now hand over to Pramod.

Pramod Patwari:

Thank you. I will now briefly take you all through the Company's operating and financial performance for the quarter under review.

Overall revenues in Q1FY17 were higher by around 25% y-o-y at Rs.827 crore as compared to Rs.664 crore in Q1FY16. Net profit for the quarter improved to Rs. 110 crore as compared to a loss of Rs. 70 crore in Q1FY16. We reported improvement in performance during the quarter on the back of healthy performance in sugar division. Distillery and Co-generation businesses continued to contribute positively to overall results of the Company.

Coming to our Segmental Performance: Revenues from the Sugar segment improved to Rs.725 crore in Q1FY17 as compared to Rs.548 crore in Q1FY16. The segment reported a PBIT of Rs.103 crore versus a loss of Rs.115 crore in Q1FY16. During the quarter, sales volume of Sugar stood at 18.95 lakh quintals as compared to 19.09 lakh quintals in Q1FY16, in the current quarter realizations improved to Rs.34.56/Kg as compared to Rs.25.39/Kg in the corresponding quarter. As on 30th June, Sugar inventory stood at 39.22 lakh quintals and valued at 27.21/quintal.



In Q1FY17 revenues from the Distillery division improved by around 13% y-o-y to Rs.80 crore. PBIT for the quarter improved to Rs.43 crore as compared to Rs.34 crore. Ethanol sales improved to 16,554 KL in the quarter as compared to 14,384 KL in Q1FY16. Other alcohol products sales volume during the quarter stood at 72 KL as compared to 1,085 KL in Q1FY16. Average blended realization in the Distillery segment increased to Rs.46.40/BL from Rs.39.62/BL in Q1FY16.

Performance of the Cogeneration segment remained subdued on account of lower availability of Bagasse leading to a fall in volumes. This was also on account of diversion of some of the Bagasse towards the Incineration Boilers to enhance the Ethanol production. Revenue for the quarter stood at Rs.62 crore with PBIT of Rs.21 crore. Sales during the quarter were at 1,000 lakh units as compared to 1,573 lakh units. Average realizations in Q1FY17 were stable at Rs.4.73/unit as compared to Rs.4.81/unit in the corresponding previous quarter.

Finance costs for the quarter were lower at Rs.21 crore as compared to Rs.27 crore in corresponding period last year. Working capital loans as on 30th June stood at Rs.733 crore which will come down further due to liquidation of Sugar inventory. As on 30th June Company's long-term debt stood at Rs.531 crore after repayment of Rs.145 crore during the quarter ended June 2016, leading to a long-term net debt-to-equity ratio of 0.38.

This brings to an end of my opening remarks. We would now like to address any question or queries you may had in your mind. Thank you.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Arun Malothra from Sentilum Capital. Please go ahead.

Arun Malothra: My question is first on the Government has been trying to come with desperate measures like putting a ban on the Sugar features and all. Are you concerned about the future prices of the Sugar in the market? Second was the excise 12.5% on the Ethanol. So would that impact the Ethanol realization by close to Rs.5?

Vivek Saraogi: Let me get to the basic understanding of the whole business and the way things are playing out recently. First, I will come to the Sugar price. Prices right now only closer to Rs.36/Kg ex-factory. At these levels if the government comes out and says, that the NCDEX of the futures market is something we would like to suspend, I do not see a problem in it. Then we do not want speculation to drive the prices and then we do not want people to perceive shortage when there is none. So people are coming out with data points that Maharashtra producing 5 million tonnes next year. One is feeding into the other. NCDEX goes up by Rs.50, next day again it reiterated and people start talking of production of 21 million tonnes next year. So, all these things lead to this NCDEX leading a speculative foray. That is not good for the industry, that is not good for the consumer, that is not good for our future pricing cane pricing, etc., So what we have said is let the actual production determine what the shortage if at all there would be and then let us address it then. Let us not being by addressing something we do not know about. So hence if the Government comes out and puts a curb on the futures market, I do not see us having a problem at all because our profitability or our dispatch is only determined by what we sell in the month. I cannot go out and sell six months – hence the volume is 2000, 3,000 tonnes and that comes in as speculative earning in the balance sheet, we do not indulge in it. I personally do not see any benefit in that. The Government has been extremely supportive till now. I do not think they have reacted till the price of Rs.35/Kg. If at Rs.36/Kg they come out and say that speculation is getting too sort



of heavy on the market, I do not think it is a problem. I am not worried about the ex-factory prices. One can definitely feel that Rs.35/Kg is sacrosanct. Rs.36 /Kg being the current price. Yes, this Distillery thing is like kind of a thing which was a little unexpected. On the balance dispatch during the year which was envisaged based on last year's molasses, that would be a Rs.5 reduction but if we see the Sugar price, that is way beyond our expectation. So if you see a Re.1 uptick in Sugar price beyond our expectation and at the beginning of the year at 58 lakhs bag, you have Rs.58 crore plus on that. So you cannot micro manage it but yes, this ethanol being a supply mainly about 3 crore litres dispatch which we have pending. So Rs.5 withdrawal in that is Rs.15 crore impact. I have given you the Sugar positive impact side-by-side.

Arun Malothra: Just a follow-up sir, since you mentioned about the ban on the futures and you gave the comment, is that a signal that the Government may also take dangerous step of allowing imports of Sugar is the prices rise beyond current or maybe 38-39 levels at the ex-factory?

Vivek Saraogi: That is the first reason why the speculation should end. Second of all, I see no reason for prices to go to 38. I also see no reason for the Government therefore to allow import, because as I told you let the next year production data come out in reality, the real data will be available in January-February and assume there is a shortage, the shortage would be in the month of October if at all and I told you in the beginning of my call that in October-November you do produce 2 million. So even if the 23 million tonnes production is correct, then on 1st of December '17 you would have let us say in October-November even if you consume 42 lakh tonnes you begin with 42 and you produce 18, on 1st December '17 you still have a 1.8 million tonnes sugar stock with everyday sugar production. So assume now the production dips to below 22 million tonnes and assume there is a 1 million tonnes shortage, let us address the 1 million shortages then and let us address it by 1 million tonnes. That is I think the thinking which should come about and that is my best estimate.

Arun Malothra: On the dividend payout policy, can we expect more generous payouts in the coming year based on the huge cash flow which you would be generating?

Vivek Saraogi: Our theory has been very clear; you did not speak to me or Pramod or anybody. If we have no investment, first, clear loan and then dividend. As you see last year funds flows are also in the system and we target to clear loans aggressively this year and pay dividends aggressively because that is our thinking. Should you be come back to the shareholders or the board with anything else? Time will decide. But otherwise one is not looking to do anything else with cash other than loan and dividend.

Moderator: Thank you. Our next question is from the line of Sachin Kasera from Lucky Investment Managers Pvt. Ltd. Please go ahead.

Sachin Kasera: You were mentioning that the government may eventually moot ethanol pricing linking to import parity which today are almost Rs.7 to 8 per litre lower than the expectations that you guys are having.

Vivek Saraogi: Not that we are aware of any such thing and I do not think that is the fear. After this Rs.5 removal, I do not see much more fear left. What our dialogue with the Government reveals is they said, "We give you this special privilege because you are losing so much money." Now having supported you and now even the price gone up, why should we contribute more from the exchequer. The Government's



fiscal need or fiscal greed that I do not know how to put it. Sometimes basically has withdrawn its fiscal support which is tweaking out of its pocket.

- Sachin Kasera:** How do you see the procurement for the next season sir for Ethanol?
- Vivek Saraogi:** I am not negative and just do not seem to be negative. The Rs.5 expectation I was very clear in my mind and we were very clear in our past communication is there for one year only. Instead of that lapsing on let us say November-December, yes, they withdrawn it in August prematurely. I have given you the expected loss about Rs.15 crore. Thereafter and beyond this, I do not have any much fear. If Ethanol prices get further reduced substantially that is not my information or my feeling.
- Sachin Kasera:** In terms of the quantity, do you see next year quantity be even higher than this year or you think it will be more or less sustained?
- Vivek Saraogi:** Our quantity this year dispatch should be around 7.5 crore litres. Pollution system will become very tough even after this thing. If rainfall is uncertain, we have to shut down for a bit. Our molasses availability also we hope to improve next year. We are working very hard on our cane. So 7.5 crore litres would go up to 8 crore litres next year.
- Sachin Kasera:** Despite the new environment norms that will be compliant because of the...?
- Vivek Saraogi:** We have become environment norms compliant, we do not have the problem with compliant environment norms because of our huge investments. We need to just handle our molasses availability and that will come out of the crushing next year. So that is why we have given an upward guidance for a little bit; 7.5-8 crore litres.
- Sachin Kasera:** Because I believe a couple of quarters back you were even looking at closer to around Rs.9 crore litres, you said...?
- Vivek Saraogi:** We had said 8-8.25 crore litres, I said 9 crore litres is our available capacity, but we do not have enough molasses. So we were expecting between 8.25 to 8.50 crore litres, that might be difficult. So we might look to go to 8 crore litres.
- Sachin Kasera:** The U.P. Government has increased the quota from 15% to 25% for the local Alcohol industry. Is that correct?
- Vivek Saraogi:** Yes, there is some issue on the country liquor front. We are fighting that. Even despite that this is our guidance. U.P. Government's quota has increased from 15% to 25% on non-captive consumption.
- Sachin Kasera:** Secondly, what is the type of steps you are taking to increase the cane crushing in the coming season?
- Vivek Saraogi:** We are working very hard with a variety and we are hopeful that things should improve from here.
- Sachin Kasera:** Regarding your debt repayment, you mentioned you want to aggressively repay debt. From what I understand we are also having certain loans which are at concessional rates. So that also we would want to repay or that we are very comfortable keeping in...?



Vivek Saraogi: No, we will only be keeping very low cost debt, there is interest-free loan from Government of India which will obviously be kept. Outside of that, some very miniscule low cost we have debt is our wish list when we draw next year balance sheet.

Sachin Kasera: On power generation sir, how do you see this year we have been impacted with lower crushing?

Vivek Saraogi: On the power generation, what happened is our crushing got lower plus incineration is the cost of running your distillery. So I think our projection from this year would be 50 crore units for FY17.

Sachin Kasera: Would you be able to give us any sense on how do you see the cane pricing for the coming season?

Vivek Saraogi: It is very tough, but all I can say is one can look forward to it with a little more rationality than in the past.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial Institutional Securities Pvt. Ltd. Please go ahead.

Achal Lohade: What I wanted to check your views on the global outlook, how are you looking at globally because we tend to hear that the deficit number is pretty large, prices are pretty good globally. So do you think there is any risk to these global prices because even if theoretically we were to import I think it will be much higher than the current cost. So I am just curious to know how do you look at global outlook?

Vivek Saraogi: If you are asking me, "Is my view bearish globally?" My answer is no. But I am not also in the camp which says global prices are going to be 25 cents. So right now it is around 19.5 cents. I think 5% up or down.

Achal Lohade: Sir, you mentioned that the Government has withdrawn the excise duty on the benefit on Ethanol, when it has come out?

Vivek Saraogi: It is about Rs.5 a litre, notified yesterday.

Achal Lohade: The import parity price what would that number be in your view if at all, is it already happening, what are you hearing from the Government side?

Vivek Saraogi: As I said, I do not think the Government is looking to fix Ethanol prices at any other prices they did last year. I am not of the view that there is going to be after this withdrawal of Rs.5 any great fall any more. But let us wait. It is not on my part to be able to give you a view right now. But I am not worried overly on that account.

Achal Lohade: We had a very strong realization for Distillery. Would you be able to give what is the realization for RS, ENA if there is anything and Ethanol?

Vivek Saraogi: We do not sell anything else but Ethanol now. Like we dispatch 1.66 crore litres last quarter, this quarter we expect to dispatch much better quantities.

Achal Lohade: In terms of the overall India production, you said 23.2 million tonne. What is the production we have assumed for U.P. for the coming year?



Vivek Saraogi: U.P., I think they have taken an uptick of about 5-6%.

Achal Lohade: So 6.8 million tonnes becoming about 7.1-7.2 million tonnes ?

Vivek Saraogi: 7.2 million tonnes maybe.

Achal Lohade: Maharashtra you said 6.2 million tonnes

Vivek Saraogi: 6.4 million tonnes, but trust me this is the data. If I was to do the data I would not have done it. No point doing data before September because a satellite image of anybody is to see the cane until the cane grows we actually do not know it is cane in many fields. So satellite time does not pick up correctly. Our physical surveys however reveal that at this point of time if you were to do an estimate this 23 million tonnes looks reasonable, but the better estimate comes out in September.

Achal Lohade: Might be too early to talk about it. What I wanted to check, If I look at the U.P. sugar mills, most of them have cleared the cane payments barring a few of them. I am talking about the big competitor for us in most of our locations. I am just wondering would it be possible that the farmers actually asking us to pick up their canes than going to the competitor who is not able to clear the previous year's cane payments, would there be a possibility, would there be a mechanism at your meetings when you meet in August-September with respect to the cane reservations?

Vivek Saraogi: Last year was a first year mills closer to us what you are referring to. There was a gap of almost 25-days when our mills 15 kms away, their mill shut 25-days earlier than us. So I think the evidence is in front of you and this would keep growing. So my answer to your question and your assumption is it is partly correct.

Achal Lohade: But if we look at the crushing number, it did not improve much actually? I am just curious...

Vivek Saraogi: If you see last year yields were much lower in East U.P., however because of the diversion of cane towards and if you see the other groups decrease, it is much-much higher and the difference will now keep enlarging.

Achal Lohade: The yields were down in your view, was it to do with any variety reason?

Vivek Saraogi: No, it was not to do with variety, it was basically some parts of Eastern UP had more drought, etc., it is very difficult to predict, but till now so far so good.

Achal Lohade: In terms of the cane registration, what have you seen till now particularly for us?

Vivek Saraogi: Again, September is the right time, but our crushing would be better than last year.

Achal Lohade: About 7 million tonnes plus...?

Vivek Saraogi: Too early to predict anything more.

Moderator: Thank you. The next question is from the line of Deepak Madhav Das from Lead Shares Associates. Please go ahead.



Deepak Madhav Das: I just missed, what was the opening stock and consumed and the closing stock for the inventory?

Vivek Saraogi: 7.1 million tonnes should be our closing stock; I am doing approximate number, 23.2 production, 30.3 million tonnes total, 25.5 million tonnes consumption, so 4.8 lakhs closing stock on 1st October 2017.

Deepak Madhav Das: No, I am talking about the previous inventory. What was the closing stock you had said either it is 39 lakhs...

Vivek Saraogi: 39 lakhs bag from Balrampur.

Deepak Madhav Das: Which was valued at Rs.27, right?

Vivek Saraogi: Yes.

Deepak Madhav Das: Now, it is ruling at Rs.36?

Vivek Saraogi: Approximately.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from Suvridhi Capital Markets. Please go ahead.

Aman Sonthalia: What is the crushing estimate for U.P. and your company for the coming season?

Vivek Saraogi: I was just trying to explain that crushing estimate for U.P. has been taken 5% higher. We are doing our survey which gets activated in September. Too early to say, but definitely crushing looks to be little higher than last year. Accurate data I think on the next call we will be able to give you.

Aman Sonthalia: On recovery, last year it was very low but most of the people are saying that it cannot be repeated. So what is your view on that?

Vivek Saraogi: Last year recovery I am also not looking to repeat that and I have said that earlier, but one has to forget the older recoveries, varieties have improved. So if you do not expect 11.13%, but you will definitely get much high recovery than your earlier averages.

Aman Sonthalia: It maybe down by around 0.3-0.4%, not more than that?

Vivek Saraogi: Too early to say but your guess is not bad.

Aman Sonthalia: Sir, most of the investors when we talk about the sugar shares, they have two things in their minds -- #1 is it is cyclical in nature of industry and #2 is that Government intervention. So Government intervention you cannot do anything. But as far as cyclical nature is concerned, do you not think in the next 2-3-years the consumption will be matching with the production and this cyclical nature will come to an end?

Vivek Saraogi: I am of the view that Government intervention should not be seen negatively. If you saw Government intervention last year it was brilliant with what they came out, gave you export quota and that is where exports started and the market turned. They have put a cess on sugar, now this money collected is with them permanently



increasing every day and should there ever be a surplus whenever, the Government would immediately activate this and they have seen the success of this program. So I do not see that next time when prices are to come down because of a surplus, that would be allowed to happen because the surplus would immediately be addressed. To that extent and based on your assumption that consumption is growing, production will take time to grow and overhang of surplus looks at least two-three years away if not permanent. Why should there be a surplus if we can export it? So Government intervention on this account and this unique method devised by the center leaves me very positive for the future on a sustainable basis.

Moderator: Thank you. The next question is from the line of Rajeev Agarwal from Bulls & Bears. Please go ahead.

Rajeev Agarwal: I have two questions: One is what kind of realization was in July month?

Vivek Saraogi: Closer to Rs.36/Kg.

Rajeev Agarwal: This quarter what kind of a number of bags we would be selling?

Vivek Saraogi: It is difficult to give you this forward-looking data.

Rajeev Agarwal: Have you given a thought of buyback instead of giving dividends?

Vivek Saraogi: I do not think so. Dividend is what we have given and there is no reason to change track.

Moderator: Thank you. The next question is from the line of PVK Mohan from Principal PNB Asset Management Co. Ltd. Please go ahead.

PVK Mohan: In your assessment, selling by the millers is smooth, I am just taking off from this, there was a stock few days back that Government might look at this selling quota coming back to curb this price volatility. So in your assessment do you see most players selling as per spread out kind of a thing or is there a lot of holding back to capitalize on higher prices in the coming few months?

Vivek Saraogi: Let me tell you the data; in Maharashtra people are having 70% of their production, U.P. is having 42%. Now, Maharashtra is anticipating a drop in production hence they are stacking their sales. Having said that, monthly dispatches still going on. I do not think Maharashtra can keep sugar in its godown beyond a point. So yes, they would be selling. The Government is also encouraging them, dialoguing with them and I do not see any of those curbs coming back. No curbs can increase availability. Curbs can only lower availability.

PVK Mohan: The reason I am asking is, if you are worried about the very near-term impact because as you said once the crushing season starts, availability improves. So if you want to curb prices in the next few months, you can step up that. Though you are right, on the longer-term it does not address the demand/supply gap that exist. Can I take it that is not what you fear about that the Government is getting to that?

Vivek Saraogi: I began by telling you that speculation was getting into the system to this NCDEX model in futures. What was happening, somebody was predicting 5 million production, next day NCDEX joined by Rs.50, so if somebody was a seller, he will say, "Let me hold back for a day. All three were feeding each other. So I think with



this Government's threat and Government's single move is giving everybody a clear indication that "Do not act smart. Please continue selling. Please behave normally and do not think that there is anything wrong with that directive.

PVK Mohan: In your assessment, the current price level ex-factory about 35-36/Kg, do you think at the Government level that is within the tolerance level of theirs?

Vivek Saraogi: It is very difficult to make a statement like that, but if you heard FM a few days back on TV, the price was around 36.25/Kg, he said price of sugar we wanted to correct by Rs.1-2 a Kg. He is indicating 35. That is not for me to say, you heard it on your own. So, I do not think there is much discomfort, but yes, at this point of time, any further speculation is unwarranted.

Moderator: Thank you. The next question is from the line of Amit Desai who is an individual investor. Please go ahead.

Amit Desai: My question is what would be the growth drivers from here onwards because last year the price was around Rs.23-24, now it is running at Rs.36/Kg around. Now, we have inventory of around 39 lakhs of bags which the profit per Kg would be around Rs.9/Kg. If you say in coming future, the share price goes up and also the sugar realization instead of Rs.36/Kg becomes Rs.38/Kg, so net-net it remains same for say next one year. Now, in such situations where everything remains same, what would be the growth drivers for a company and for investors?

Vivek Saraogi: First of all, I do not see this Rs.9//Kg as a margin which is sustainable ever, let me be clear on that. Sustainable margins are different. Let us hope we can arrive at that. However, yes, trajectory is positive, things are looking good. We have guided as much as we could. At our end, as we just said, till we come upon some other business proposal, idea or investment which meets our criterion needs on the conservative side, we would continue to repay loans and pay out dividends. If your question is "Whether we are looking to acquire more sugar capacity in U.P.," until and unless we are very clear what is coming to us, answer is 'no.' We are not running after anybody for any capacity.

Amit Desai: That is perfectly fine. My question was intended to that expanding or having bigger Sugar...

Vivek Saraogi: If the opportunity is good enough, we will definitely do get it, but we will not be chasing anything because there is cash in the system.

Moderator: Thank you. The next question is from the line of Biju S, who is an individual investor. Please go ahead.

Biju S: We invested heavily around Rs.225 crore in our Incineration plant. Of course, that is partly for meeting the environmental requirements but now we were having a good sight in delivering more Ethanol due to the blending requirements also. Now, there is news spreading around that Government wants to link the ethanol realization to the market scenario, the market dynamics. Now, around 46-47per litre, we are realizing. So if at all this market-linked mechanism is coming and the crude oil prices still not in the prominent level, there is a possibility Ethanol realizations may go down. If such a scenario arises, how flexible our manufacturing line is so that our Cogen can be on the rise and we can reduce our Ethanol, it is based on our realizations.



- Vivek Saraogi:** First of all, I try to answer this concern; I do not think that is my personal fear at all. Secondly, you are going to manufacture whatever product you do and the Government will come out with the tender, where they would give an indication of the price. At that point of time, you bid. That tender should come sometime in September. It is very clear that this Rs.5 per litre has been taken away. This was a one-time relief meant to last till October-November. They have taken it up two-three months prematurely. Having said that, I do not see any more danger in my mind which is drastic, I cannot predict Re. 50 paise or Re.1. So 46 per litre will become 41 from today, which has already become that you are aware.
- Biju S:** So that means we will have an impact of roughly about Rs.15 crore?
- Vivek Saraogi:** I said that in the beginning, exactly.
- Biju S:** So that means you are not having much of a concern regarding ...?
- Vivek Saraogi:** Not so much.
- Biju S:** We are having a subsidiary company in our 'Annual Report' by the Indo Gulf Industries.
- Vivek Saraogi:** We will come up with some program very soon for our subsidiary company.
- Biju S:** Because what I am seeing is that we are having some specialty chemicals as well as into explosives also. So, given the Make in India program and the defense area, what is the ...
- Vivek Saraogi:** It is not that big. I think by the next call we should give you some visibility on that.
- Biju S:** We will be having good amount of realization going forward at least for the next three quarters. So we will be beginning a little good of free cash flows we will be having. So are you having any further plans of rewarding shareholders? Rather than paying dividends, are you having any plans of going in for buyback?
- Vivek Saraogi:** If shareholder receives money in whichever format, debt repayment, money to shareholders, if no new business program is there. You are already on the path of dividend. We do not see no need to change course. That comes to you tax free. Is it not?
- Biju S:** Now the U.P. elections are also forthcoming in the next May and the state advised price is also expected to be announced for the upcoming season. So if at all there is an increase going up, to what extent we will be able to hedge that given the way the dynamics in realizations are happening?
- Vivek Saraogi:** I said in the beginning, it is impossible to predict U.P. Government's pricing, but I had also said that having seen last three-four years and seeing the fact that they had to give out so much money because they fixed the cane price, became unrealistic a couple of years later. I think U.P. Government being a lot more rationale in my mind.
- Biju S:** Yes, I feel that is the only State Government in India which is more proactive towards the industry because industry's development will be giving benefits for farmers. Unless industry is strong, how they can remunerate farmers? That is a



crucial issue. There is a production subsidy of Rs.4.50 per Kg to our company. Recently the group of ministers in the Union Government, they took some decision. Whether we will be able to realize some...?

- Vivek Saraogi:** We should get our subsidy.
- Biju S:** Have we accounted for that during this Q1?
- Vivek Saraogi:** Yes.
- Biju S:** That is for the other income?
- Vivek Saraogi:** No, we have accounted for that both sides, we have incurred a loss on export, because of if you will get reimbursement, so we have accounted for both sides -- the receipt side as well as the expense side.
- Biju S:** This Cogeneration, what I have noticed is the realization per unit was down in Q1FY17. What can be the reason because my understanding is U.P. Government regulatory authority is there....
- Vivek Saraogi:** You had different units having different rate for PPA depending on the age of the plant. Our average is 4.8 per unit.
- Biju S:** Okay, I understood. I thought it is for the entity. It is not for the entity but for the units within the entity. That is a concept. Accordingly only that happens based on the age of the plant. This 4.73 per unit only we received in comparison to 4.81 per unit. I am seeing only in the power point presentation. There it is Page #17, 4.73 per unit is our realization, last quarter was 4.81 per unit.
- Pramod Patwari:** We have PPA agreement with UPPCL for all the units and that is the range of rate at which we supply that is between 4.5-5.5 per unit also. So depending upon the plant through which this export was made...
- Biju S:** Okay, I understood, based on that the average is 4.73 per unit.
- Moderator:** Thank you. The next question is a follow up question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Sugar cess of Re.1 is that not government is looking to reduce the prices because they initially intended to compensate mills for the export loss, now that has stopped, it is a very large number?
- Pramod Patwari:** The idea of introducing this Sugar cess was to build up a kitty at the government's hand in case of any such situation where the prices are depressed, this fund can be utilized to meet the cane price liability or to help the millers for exporting.
- Sachin Kasera:** But that is no longer the case, millers is in a pretty good shape now and corpus is still reasonably large, so does it make sense for the Government what are our thoughts, have we represented the Government that if you reduce that, automatically Re.1 the sugar price will come down?
- Pramod Patwari:** Government is not thinking in that direction as of now. The idea is to have the cess on a sustainable basis for the long-term perspective.



- Sachin Kasera:** Can the cess can be used to give soft loans in future if need be or it can be only for compulsion of any loss on exports?
- Pramod Patwari:** It can be used for interest subvention of soft loan also.
- Sachin Kasera:** Re.1 a Kg as of now, right?
- Pramod Patwari:** Re.1 per Kg.
- Sachin Kasera:** Which would mean that the Government is collecting approximately Rs.2,500 crore a year in the cess, sir?
- Vivek Saraogi:** Yes.
- Sachin Kasera:** Is it non-lapsable in the sense in the current year the industry being healthy and does not need the cess, next year this can be carried forward or this goes back to the consolidated fund of India?
- Vivek Saraogi:** This technically is a specific fund and it should remain in that and as and when required it should be given. There is enough money and more with the Government for the sugar industry taken from the sugar industry via the cess mode.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you.
- Vivek Saraogi:** Thank you, everyone and thank you for joining us.
- Moderator:** Thank you very much members of the management. Ladies and Gentlemen, on behalf of Balrampur Chini Mills, that concludes today's conference call. Thank you all for joining us.

