



Balrampur Chini Mills Limited

Q4 & FY15 Results Conference Call Transcript

May 28, 2015

Karl Kolah: Good afternoon everyone and thank you for joining us on Balrampur Chini Mills' Q4 and FY15 Results conference call. We have with us today Mr. Vivek Saraogi – Managing Director of Balrampur Chini Mills; Mr. .Kishor Shah – Director & CFO and Mr. Pramod Patwari – General Manager – Finance of the company.

We would now like to begin the call with brief opening remarks from the management following which you will have the forum opens for discussions. 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 Vivek.

Vivek Saraogi: Good afternoon everyone and thank you for joining us to discuss Balrampur Chini's operating and financial performance for the fourth quarter and year ended 31st March 2015.

The Country's production is estimated at 28.2 million tons for the current season. This is much higher than our earlier estimate of 25 to 26 million tons and as compared to 24.3 million tons in the previous season. The increase is mainly on account of significantly higher production in Maharashtra. The state is now expected to produce 10.5 million against 7.7 million. UP is likely to produce about 7.1 million as compared to 6.5 million.

The huge surge in production is lead to much lower sugar price. Current realization is around Rs. 25 per kg. This combined with the high sugarcane prices have resulted in arrears all across the country and arrears at around Rs. 21,000 crore right now. Just to let everyone know, earlier arrears in Maharashtra never used to be there but this year Maharashtra arrears is around Rs. 4,000 crore. Central Government has taken some measures that increased duty on import of sugar under OGL from 25% to 40%. Earlier it had announced a subsidy Rs. 4,000 a ton for export of 1.4 million tons of raw sugar. While we welcome such measures we feel that they fall short to aid any revival in this sector and reduce the prevailing stress in the system.

Coming to the company's performance for Q4FY15 and in FY15 we crushed 8 crore quintals of cane as against 7.7 crore in FY14. Recoveries were slightly higher at 9.83% compared to 9.77%. Sugar division continues to deliver negative



performance on account of subdued sugar realization as compared to high input cost in inventory right now. Overall the UP Government announced a financial assistance of Rs. 40 per quintal which included benefits for cane and other reimbursements and remissions. We have accounted for the financials during the year and despite that the loss in the sugar segment is still very huge owing to subdued realizations.

Distillery and Cogen segments continued to deliver stable performance on account of better realization in sales volume. In the cogeneration segment the upper revision of tariff of Rs. 0.49 has been notified from January 20, 2015.

During the year we have also witnessed an uptake in realization from our distillery division going forward higher volume along with enhanced realization will enable the allied segments to improve contribution to the overall performance. To conclude I would like to say that the industry is going through its worst down cycle. A normalized performance from the sugar division will only be achieved if sugarcane prices are aligned to sugar realizations. We remain and are hopeful that central and state will address the concerns soon which would aid sustainability of the sugar sector and benefit all the stakeholders involved.

I would like to now handover the floor to Kishor for some of the financial highlights.

Kishor Shah:

I will now briefly take you all through the company's operating and the financial performance for Q4 & FY15. In FY15 revenues were higher at Rs. 2,987 crore as compared to Rs. 2,665 crore in FY14. The company made a loss of Rs. 58 crore as compared to profit of Rs. 4 crore in FY14. The performance was primarily impacted owing to the negative contribution from the sugar segment.

In FY15, revenue for the sugar division was higher at Rs. 2,615 crore as against Rs. 2,360 crore in the previous year. The segment recorded a PBIT loss of Rs. 279 crore during the year. For FY15 our sales volumes stood at 81.45 lakhs quintal compared to 70.78 lakhs quintals in the previous year. Realization for the year is stood at Rs. 29.40 per kg as against Rs. 30.44 in the previous year. As on March 31, 2015 the sugar inventory was 55.42 lakhs quintal and it is valued at Rs. 25.58 per kg.

Revenues from the distillery segment were higher by 13% at Rs. 285 crore. PBIT in FY15 increased by 24% to Rs. 144 crore. RS and ENA sales volume for the year were at 43,760 KL versus 54,384 KL in FY14. During FY15 ethanol sales were higher at 30,442 KL as compared to 19,696 KL in previous year. FY15 as average blended realization improved to Rs. 37.40 per bulk liter as compared to Rs. 32.62 per bulk liter in corresponding period. Cogeneration business revenues in FY15 increased by 15% to Rs. 379 crore and PBIT increased by 21% to Rs. 184 crore. FY15, sales volumes increased by 13% to 61.68 crore units. Average realization for FY15 was higher at Rs. 4.23 per unit.

That is all this brings us to the end of the discussions. We would like to address any question or queries you have in your mind. Thank you.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Chintan Seth from SKS Capital & Research Pvt. Ltd. Please go ahead.



- Chintan Seth:** Our gross debt number as of March what is the debt number on break up with long term and short term separately?
- Vivek Saraogi:** Yes what else?
- Chintan Seth:** Second question, can you explain the slide 9 wherein you have accounted the entire financial assistance of 28.64 quintal and last year's 6 per quintal which has been accounted this year also. Can you explain a bit because when we see the other companies UP based companies reporting either not taking in to account entire number or taking a partial assistance in to their financials. So why are we much aggressive in terms of taking this numbers in to the financial this year?
- Kishor Shah:** Yes, basically the long term debt as on March 31, 15 were Rs. 492 crore and the short term debt on working capital was Rs. 1,183 crore.
- Vivek Saraogi:** This working capital debt is backed by stock.
- Chintan Seth:** And my second question?
- Kishor Shah:** Yes, in terms of accounting for subsidiary.
- Vivek Saraogi:** I will tell you what and why we have done it. Basically if you see the Government this time has notified benchmarks they said that if they would decide on Rs. 8.60 is payable if the price remains below Rs. 3,100 then the balance Rs. 20 is to be determined by the chief secretary committee depending on the realization between 31st October and 31st May or I think it is 1st October to 31st October. So if you see if the price fall by Rs. 200 this Rs. 20 becomes payable, basically commonsense and our dialogue in formal. However, the prices down to the realization right now it is about Rs. 25 and the average would be in the range Rs. 27 or whatever Rs. 26.5. It is amply clear that there is no question about this subsidy not been given. Second point is at present we are required to pay Rs. 240 last year we are required to pay Rs. 280 and take the reimbursement. So there is ample evidence of the fact that this is going to be received. And it will be to my mind may be paid directly also.
- Kishor Shah:** These things are announced by the government in the beginning of the season itself so it is Rs. 240 per quintal and Rs. 40. The basic idea is to give this Rs. 40 relief in case the price remains below Rs. 29 per kg.
- Chintan Seth:** Why I am asking is because when I take a call of DCM or Dalmia Bharat smaller player compared to us but when they are accounting they are not taking in to account Rs. 28.60 per quintal the financial assistance in their accounting because they are waiting the as per the management they are waiting Government's notification regarding the same and they are not accounted any money. That is the reason why I am asking and even after we are accounting this?
- Kishor Shah:** You are right basically, even we are waiting for the final notifications but as we explained the rationale much below of Rs. 29 per kg. And Triveni, Dhampur, Birlas most of the companies have accounted for the entire benefit Rs. 28.60.
- Vivek Saraogi:** It is not that Balrampur has accounted.
- Kishor Shah:** Nor that we have taken the aggressive steps norms.



Vivek Saraogi: So it may be 75:25; 75 have accounted, 25 it might not accounted.

Chintan Seth: And what is the cost of production currently, our cost of production sugar?

Kishor Shah: Yes, cost of production is Rs. 28.64 per kg before interest and the operating overheads.

Chintan Seth: Before financial operating cost?

Vivek Saraogi: I think there are a couple of other issues which might come up so I will brief all concerned. One is Khalilabad - we had acquired this unit and in the current situations, the concept was that the idea being that if you can invest money in to a small unit and take it ahead you could put the cogen and distillery and then make your money. However in the current situation we have seen that it has incurred a loss of Rs. 15 crore plus. The recovery is 8.65 it is dragged down the recovery of the group. So in this event we were willing to invest money in to cane development in cogen and in distillery.

Then it made sense to run it; otherwise in the current situation there are a couple of units close by to Khalilabad which needed cane and which are integrated. Hence as a company we took a decision that one should go ahead and close down this unit as it is not making any sense. We are required to invest in the distillery business to enhance capacity. I will just come to that the moment I finish this. So that was the rationale that 2,500 tons factory without expansion cannot survive and we have absorption part of the worker mostly we have absorption part of the sugarcane and it can be integrated in to our system without running another roof or another site. So that was the rationale and hence we have decided to go ahead with this decision.

Chintan Seth: What is the capacity?

Vivek Saraogi: 2,500 out of 79,000. And this year's loss is about Rs. 15 crore only on this Khalilabad account. So that was one decision. There was another decision to invest Rs. 200 crore in three distilleries and this is in line with the CPCB guideline which now bans for ferti-irrigation post September 2016. Today one is allowed to run a maximum of 270 days with this ferti-irrigation and if we have to enhance our distillery capacity which does not mean machinery on the distillery front but the ability to run 330 days you require to go in for zero discharge with incineration. Because of this our capacity which is about 10.5 crore liters is getting restricted to about 7 crore liters we are also making a small expansion of 40 liters in one of our distilleries.

So overall outlay would be 200 crore in three distilleries. This will give us permanent ability to move our distillery capacity from effectively 7 crore under the new guidelines of CPCB to about almost 11 crore, it will allow us to sell some incidental power and with the upcoming notification of excise remission from 15-16 which would lead to enhancement in distillery realization from the ethanol business and with the ethanol policy which is very good which is de-linked from the price of crude give us a fixed price and a very good price. This division can perform very well after this incineration plants are put up in a year from now. So March 16 we will be able to commission the second one and the third one by June 16.



So all three plants will be ready by June and our enhanced capacity would be permanent with zero discharge and no stress. So that was one decision. And the Khalilabad was the other decision. There is some query I have received also from the power front. Earlier the UPRC given a judgment where it has allowed us to recover arrears of Rs. 19 crore which is it has enacted the new tariff from 1st April 2014. However, there were various litigations and the final order of the UPRC had waived the obligation of UPPCL to pay from backdated. So we will be getting our new tariff from January 20, 2015. Accordingly based on the earlier orders we have given the December quarter result, we had accounted for the arrears and hence there was a higher realization. We have now reverted this back based on the latest order. So these were the major changes.

Chintan Seth: Can you just throw light on how you are funding this CAPEX Rs. 200 crore?

Vivek Saraogi: We would be hopeful of getting about 40% from sugar development fund which is a soft loan and we repayable over a long period of time. 50% from the banks.

Kishor Shah: Basically the debt-to-equity ratio would be 1:1 and out of promoter share 40% will come from sugar development fund the balance will take as a long term borrowing.

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: Can you talk a little bit about the scenario as to how are you looking at the production, I know it is a bit too early to talk about next season but how are you looking at our sentiments about the sugarcane crop and also little bit on the global front?

Vivek Saraogi: It is very difficult to predict next year as you yourself said. May be it is a little lower. The main issue as I said in my opening remarks - the Government has taken measures to improve the viability in the long run. This ethanol might allow the heavy conversion from sugar production to ethanol production. Again long term for which you require investments like our distillery investment we are doing. Then they have increased the import duty you need to export today. So yes, it is good when the prices move up but today it is of no relevance. Government did allow export subsidiary but the global markets collapsed.

So there is a need to either take the sugar price up or to lower cane price. If you want to lower cane price it will be effective next season. However if you want arrears to be cleared, the sugar price has to be moved up in the current season. So this is the scenario at present. Next year's plantation is not much lower. Having said that may be Maharashtra has gone in to such high levels of production it might come down a little but I do not see a crack in production. Having said that there will be mills which will not be able to operate next year is my personal view.

This is my personal view only. Like we declared that is one of the reason given to you but people will not find money to pay off the arrears and have money to pay salary and repair the factory and get ready for next year. So there will be a real tough way, it might play out for a little longer but there will be some realignment down the line and we wait to see what happens.

Achal Lohade: How about the global scenario you think prices are?



Kishor Shah: The global scenario is again surplus Brazil is reporting about 3% to 4% more crop. So it looks like that scenario will remain surplus only for the next 12 months at least. And it is reflected in the international sugar price also. July contract is 11.87.

Vivek Saraogi: It gone up to 13.5 if I remember correctly couple of weeks back.

Kishor Shah: It looks like it is sluggish only.

Vivek Saraogi: I have a little different view on global also. In the global market in every sugar producing country is facing same challenge as we are facing. Nobody wants to lower cane price and there is a surplus. So even globally I see capacity is getting extinguished. The process might be slow it might be painful but at some point there is a correction due to happen both in India and globally. Yes, the correction is slower this time because the cycle is not taking place. The farmer is losing his other crops owing to unseasonal rain. So he will still stick to sugarcane. But if it does not get paid year-on-year - earlier the correction used to happen earlier this time it might take a little more time. But if mills do not start, people cannot pay and Government does not look at it. There is some deep correction waiting to happen.

Achal Lohade: If I look at what is the cane arrears we have out of Rs. 21,000 crore Balrampur Chini as of March 31?

Vivek Saraogi: We will calculate around Rs. 240.

Kishor Shah: Yes, we have paid Rs. 200 and Rs. 30 we are expecting to get from the Uttar Pradesh Government and the balance of around Rs. 300 crore is due.

Achal Lohade: So you have accounted for the entire cane price and also accounted for the receivables?

Vivek Saraogi: Yes.

Achal Lohade: I see it is the loans and advances and other current asset going up.

Vivek Saraogi: Yes.

Achal Lohade: In terms of the cane price you have accounted for 280 plus whatever the transport cost minus the subsidy part?

Kishor Shah: This is normal accounting, completely.

Vivek Saraogi: Just to simplify it, we have accounted for the 2,860 receivables from the Government.

Kishor Shah: And we have taken the benefit of remissions and the waived part.

Vivek Saraogi: Yes that is already announced.

Achal Lohade: In terms of if I look at the distillery and cogen, actually it shows for the quarter dip despite higher volumes is there any change in the transfer price. Can you tell me the transfer price of bagasse and molasses for the year?



Kishor Shah: Molasses is Rs. 300 per quintal and bagasse is also the same. Bagasse in fact the transfer price will come in to effect from April 01, 2015 - Rs. 1,000 but not for third quarter.

Achal Lohade: So earlier it was Rs. 750 if I am not wrong?

Vivek Saraogi: The power issue as I explained, because of the last quarter, we took a Rs. 19 crore arrears receivables and our got challenged and reversed so we had to revoke that back. Maybe that is why the power is looking like that.

Achal Lohade: And what about those CERs?

Kishor Shah: During the year we sold around Rs. 20 crore of CER.

Achal Lohade: Rs. 20 crore for the full year?

Achal Lohade: And that is Rs. 20 crore for the full year and anything for the quarter?

Kishor Shah: Yes, quarter is around Rs. 4 crore.

Achal Lohade: Just one last question on the CAPEX around Rs. 200 crore. Can you elaborate a little bit what exactly are these compliances to whom it is applicable how would that is valued around?

Vivek Saraogi: It is applicable to every distillery running in this country.

Kishor Shah: Whether attached to sugar or not attached to the sugar irrespective of that.

Vivek Saraogi: It is a zero discharge notification and it bans ferti-irrigation.

Kishor Shah: It comes under NGTC.

Achal Lohade: So this notification is already issued you are saying?

Vivek Saraogi: Yes. So we have gone ahead and taken the part test because we see this business where the profit might cross the power division profits in the years to come after we get our entire 11 crore liters in to play. We have a visibility on the pricing and we have no option but to do this, otherwise we will not be able to operate only after September 2016. It takes a year to sort of put everything in place. So we have auctioned it. It is converting your spend wash in to a powder which then gets burned in the boiler. So you get in to zero discharge from the spent wash. So there is no liquid discharge.

Achal Lohade: And right now what are we doing with that?

Vivek Saraogi: Right now it is mixed with press mud. The spent wash discharged from the distillery is mixed in to the press mud and there is something which that the fertilizer which is prepared. It is bio composting but now that will not be allowed.

Achal Lohade: So theoretically it can create an issue with respect to the availability of alcohol or ethanol?



Vivek Saraogi: I think sooner or later everyone would have to go in for it.

Kishor Shah: This is a mandatory and every distillery will have to implement this.

Achal Lohade: But given the cash flow scenarios I wonder how many people that actually?

Vivek Saraogi: At 200% the challenge but probably I am looking to run my distillery either free henceforth and enhance my volume through an investment which I have to make whether I like it or not. It is a pollution related investment so it is making me become pollution complaint and it is enhancing my distillery capacity by over 50% for something. I have extreme visibility in for long term contracts and OMCs are lifting huge quantities all the tender quality is lifting on a monthly basis and paying for it. It is the best investment.

Kishor Shah: This will also generate additional power saleable power to some extent.

Vivek Saraogi: I know options and I am getting cash flows.....

Achal Lohade: Just last question on the ethanol front. What is the status now in terms of the ordering? How much have we received just some visibility on that?

Kishor Shah: Yes, long term visibility is there. In fact oil marketing companies they are coming out with the expression of interest every month or may be quarterly basis we are participating and we have orders in hand we are supplying good quantity they are very proactive now.

Vivek Saraogi: For example this year we could be delivering about 5.5 to 6 crore liters to.

Kishor Shah: 6 crore liters we have a target to deliver 6 crore liters going forward.

Achal Lohade: FY16 you are talking about?

Vivek Saraogi: Yes.

Kishor Shah: If you look at our last year I mean the financial year 2015, we have supplied 3.02 crore liters against 1.9 crore.

Vivek Saraogi: And this year we hope to double that to almost 6.

Kishor Shah: Now there is no attrition on pricing it is basically the quantity tender.

Vivek Saraogi: So price is fixed.

Achal Lohade: And that is getting finalized easily or it is taking time?

Kishor Shah: Very easily.

Achal Lohade: But I had a different feedback actually for non UP states, I am just wondering is it anything to do with the state or the depots near?



Vivek Saraogi: The problem is in Maharashtra, they do not wait. It is not that if not finalized the Maharashtra cooperatives do not bid properly.

Vivek Saraogi: There is just no problem.

Kishor Shah: They have made it very easy, they have reduced the earners' money deposits and penalties. So they made it operationally very easier.

Moderator: Thank you. The next question is from the line of Nirav Shah from GeeCee Investments Ltd.. Please go ahead.

Nirav Shah: I have few questions. Firstly what are the reasons for the distillery production was lower are we seeing any built up in molasses inventory or any reasons for there is a (+40%) drop in our ethanol production distillery production?

Vivek Saraogi: I have been explaining the rationale for this. That is the reason for this investment. Any time there is a pollution issue, unseasonal rainfall there are NGT has become very strict. There are times when he had to run our distillery on a lower capacity to be safe. We do not want to get in to this issue and we do not want to flout the rules they have become very strict.

Nirav Shah: So the industry is selling more of molasses right now or it is holding on to the inventory?

Vivek Saraogi: No, we would have to sell the molasses if it cannot run the distillery.

Nirav Shah: What is the breakup of pricing between RNA and ethanol for the quarter?

Kishor Shah: Yes, ethanol is Rs. 39.41 per liter and ENA is Rs. 36.35.

Nirav Shah: And on the industry's request for a 3 million ton odd buffer just want to know if you have used that? How has the allocation happened, it will be based on production or around the inventory? And at what pricing is the request to the Government?

Vivek Saraogi: If there is a buyout, the price is important. If there is no buyout then it is merely some interest cover. So at that point price is important.

Nirav Shah: And hypothetically even if it happens at the FRP cost of production and the allocation is based on inventory still the money that UP companies will get would be around Rs. 2,500 crore to Rs. 3,000 crore whereas the arrears are Rs. 7,000 crore. So I was just wondering how long will it take for the industry specifically not to get out of the problems that it has been facing for quite some time now 2 to 3 years?

Vivek Saraogi: That is what I was trying to say. Either there has to be some deep method of correcting all this or we are looking at people not been able to start. They need to sit down and have a balanced approach.

Nirav Shah: And are we more or less in line with the USDA's estimate of similar production but what is our target for internal assessment, next year how much can are we targeting to collect based on the initial estimates?



Vivek Saraogi: Next year it is too early. I see some visibility of acreage which is to be done by June end then monsoon. Probably next quarter we will be able to give you some more details.

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

Aman Sonthalia: Right now the industry is setting over supply situation and going forward also there is every chance that the industry will face the same problem. So whether the industry is giving any presentation to the Government for directly converting sugarcane in to ethanol because this will reduce the oversupply as well as improve the sugar prices and the farmers will be ultimately benefitted from this?

Kishor Shah: In fact we have made many presentations to the Government for this conversion of sugar cane juice into ethanol. But this should be the long term solution. It is not going to happen tomorrow. So basic idea is to convert B-heavy molasses in to ethanol this can start right away.

Aman Sonthalia: And second question is that since UP is highly political sensitive state so whether the company is also thinking of foraying in to other state like Karnataka and Maharashtra where the cane price visibility is very much visible?

Kishor Shah: I think the problem is across the industry so we are not looking at any other thing. We are focusing on Uttar Pradesh only.

Moderator: Thank you. The next question is from the line of Arya Sen from Jefferies India Pvt. Ltd.. Please go ahead.

Arya Sen: Firstly, what is going to be the cogen tariff going forward?

Kishor Shah: This is Rs. 4.81 per unit.

Vivek Saraogi: Benchmark increase of about Rs. 0.50.

Arya Sen: Going forward we should model about Rs. 4.80 that is right?

Kishor Shah: Yes.

Arya Sen: So from 21st January onwards you have taken Rs. 4.80 per unit but there was a write-back for this?

Kishor Shah: Exactly.

Arya Sen: And the other thing I wanted to understand is on the cane price you have accounted for in this quarter at about something like Rs. 245 a quintal right? Landed cost of cane what have you accounted for in this quarter?

Kishor Shah: The full amount Rs. 280 minus Rs. 28.60 plus all these costs; the transportation cost and everything.

Arya Sen: So in the P&L that comes to about Rs. 250 per quintal, right?



Kishor Shah: In fact our landed cost should be around Rs. 261 per quintal.

Arya Sen: And in the balance sheet in terms of payables you have another Rs. 40 per quintal due?

Vivek Saraogi: 11 is already accounted for Rs. 28.60. We can explain to you separately. Whatever is payable to the farmer is accounted whatever receivables from the Government is accounted for, simple.

Kishor Shah: I mean the Rs. 28.60 is the government has not paid yet but you have accounted?

Vivek Saraogi: Yes, exactly.

Kishor Shah: We have taken the benefit of this and as and when we receive it will get adjusted in the balance sheet. It is not a profit and loss...

Arya Sen: You are showing it as a receivable and a payable basically?

Vivek Saraogi: Right.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Coming to this ethanol blending program, when we speak to the oil marketing companies or look at their website to see the cost of blending what is the blended cost of petrol or diesel when it is blended with ethanol, it comes up that when the crude is ruling in the region of \$100 then only the price of Rs. 44 or Rs. 45 which is now payable for ethanol will be assertive to them. So again is the Government now again moving back to that subsidy regime wherein the thrust for green energy has been implemented through the ethanol blending program because we are at \$65 crude this Rs. 44 or Rs. 45 the price which has been paid for ethanol does not work?

Vivek Saraogi: It is very simple, they have delinked it and they have allowed oil marketing companies, suppose you are in a particular depot, you are missing 5% and if your loss is Rs. 2 or Rs. 3 you can charge Rs. 0.15 to the consumers. So when we see that left open there is no subsidy by the Government. Since diesel and petrol is deregulated OMCs if and when they lose money on ethanol and they mix 2% to 3% if the loss is Rs. 5 to 2% is a Rs. 0.10 loss to them they can recover from the consumer at that depot or put it in their entire basket.

Saket Kapoor: That means you are explaining that it is not subsidizing?

Vivek Saraogi: No, it is not subsidy.

Saket Kapoor: It is not subsidy even at the price for ethanol which is paid it is getting factored in to the selling price?

Vivek Saraogi: Exactly.

Moderator: Thank you. The next question is from the line of Hemant Thandapani who is an individual analyst. Please go ahead.



- Hemant Thandapani:** With the hike in ethanol price along with the removal of excise duty and considering the current sugar prices of Rs. 25 or Rs. 26 in UP is there a possibility in UP to produce ethanol directly from B-heavy molasses? Dowe have to get permissions for that?
- Vivek Saraogi:** This is far more cost effective to do in Maharashtra and Karnataka than in UP but having said that on the current price it is absolutely viable all over the country to do it. To do this you need heavy unit distillation capacity to run at least 300 days for which we have made this investment which you are seeing. This investment mood been made by others also in the coming time. That is my personal view. And this B-heavy take-off may be to some extent next year but after that in a big way. See these are all assumptions and the figures will bear out the assumptions.
- Hemant Thandapani:** But do we have to get any permission from UP Government since the molasses is also like reserved for this?
- Vivek Saraogi:** That is not major that would be part of the process. That is not a major issue.
- Hemant Thandapani:** I mean, the second thing is that as per ISMA have mentioned that about 25% of the units may not be crushing next year so is there any units nearby our unit so that those things can also get allotted to our unit so that we can cross the maximum number of days?
- Vivek Saraogi:** I am not aware of others this is what our decision is. As and when any decision is taken by the others, if they are listed companies you will hear in before me.
- Moderator:** Thank you. The next question is from the line of Chintan Seth from SKS Capital & Research Pvt. Ltd. Please go ahead.
- Chintan Seth:** I am just looking at the balance sheet, as you mentioned that I just wanted to correct on it, the amount payable to a farmers is included in the payables and the financial benefit is accounted in the receivable side. But if I look at the payables where it has declined from Rs. 1,000 crore to Rs. 700 crore so it still includes the Rs. 300 crore of arrears we have on books?
- Kishor Shah:** Yes, that is the arrears. That is compared to the last year.
- Chintan Seth:** Last year we have a higher arrears and this year?
- Kishor Shah:** This is separate, so do not compare it with the last year. The situation is different and the last year was different.
- Vivek Saraogi:** If you want a detailed review, we could go through it with you one-to-one to explain it in great details as I have told everyone what is payable has been accounted for payable what is receivable is accounted for receivables.
- Chintan Seth:** And one more thing on macro side. You mentioned that you do not see any decline in acreage on sugar and if it assume let us say similar kind of acreage and similar kind of cane production across India and production remain stagnant or at this level. You do not see any demand pick up in India like currently?



- Vivek Saraogi:** There is a demand pickup. I see consumption up at 25 million this year and I am not saying I do not see an acreage reduction as zero. But view is that it is going to be below the demand. Let us say next year's consumption is 255 production still does not look to me below 260 on the very initial estimate. It might be 5%, 7%, 10% lower but still above consumption. So we are not looking at the year where there is going to be a shortage let us put it this way.
- Kishor Shah:** The issue is of surplus stock which has to be addressed in a very effective manner.
- Chintan Seth:** So you do not see the situation or any reason on the buffer or any other way of?
- Vivek Saraogi:** That is for the Government to do. We are represented enough and more buyout increase the price, a, b, c, d, e. And now the call is not ours, the call rest with the Government. The farmer needs to be paid; mills need to run, the answer does not lie with me anymore or with the millers, me means the millers. Whatever is payable as per cash flow Rs. 200, we have gone and paid the full amount. Henceforth it is very difficult for us to do anything.
- Chintan Seth:** So on a most bullish side also we do not see much increase in realizations because realization going forward given the?
- Vivek Saraogi:** If the Government act decisively why not?
- Chintan Seth:** But considering the current situation and it does not do anything or?
- Vivek Saraogi:** Nothing happens price is not to go up it can fall only.
- Moderator:** Thank you. That was the last question from the participants. I would now like to hand over the conference back to the management for their closing comments. Over to you, sir.
- Vivek Saraogi:** I hope we have been able to answer most of your queries. If you have any further questions and would like to know more about the company we would be happy to be of assistance. We hope to have your valued support on a continuous basis as we move ahead. On behalf of the management I once again thank you for taking the time to join this call. Thank you every one.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Balrampur Chini Mills that concludes this conference call. Thank you for joining us.

