



Balrampur Chini Mills Limited

Q4 & FY16 Earnings Conference Call Transcript

May 23, 2016

Karl Kolah

Good afternoon everyone and thank you for joining us on Balrampur Chini Mills' Q4 & FY16 Results conference call. We have with us today Mr. Vivek Saraogi – Managing Director of Balrampur Chini Mills and Mr. Pramod Patwari – CFO 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 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.

Vivek Saraogi

Good afternoon everyone and thank you for joining us on the earnings conference call. I will begin the call by giving you an update on the latest developments on the sugar sector following which Pramod will take you through the Company's financial highlights.

As per latest estimates, India's sugar production for the 2015-16 season is now expected to be around 25 million tonnes. This is even lower than our earlier estimates of 26 million and ~11% lower as against 28.3 million tonnes produced in previous season. The lower production was primarily on account of Maharashtra, which produced 8.4 million tones as on 30th April 2016 as compared to 10.3 million tonnes in corresponding period last year. Production in Karnataka was lower at 4.0 million tonnes as compared to 4.8 million tonnes produced in the corresponding period last season. In UP, the production is marginally lower at 6.8 million tonnes as compared to 7.0 million tones produced in the corresponding period last season.

The country had an opening inventory of around 9.1 million tonnes from previous season. Under the Government's export scheme around 1.5 million tonnes of sugar was exported. With estimated domestic consumption of around 25.6 million tonnes. We expect a carryover stock of ~7.0 million tonnes at the end of the current season. Therefore the country has sufficient stock and there would be no need for imports.

Sugar realization has been firm for the past few months on account of lower than expected production and projection of next year which I will speak about.

In Q4FY16 they improved to above Rs.31.00 per kg and are currently at around Rs. 34 per kg. Given the evenly matched demand-supply scenario and lower production estimates for next season, we anticipate realizations to remain firm going forward.

Coming to Balrampur, in FY16 our sugar production improved 4% year-on-year basis to 82.15 lakhs quintals versus 79.19 lakhs quintals in FY15 aided by strong recoveries. The recovery for the current season has been a record high of 11.13% as compared to 9.82% primarily aided by favorable weather conditions and as a fruit of our sustained cane development activities.

The cane development included basically improvements in varietal balance which we see playing out further in years to come. Due to these efforts we expect that BCML could have a sustainable recovery of around 10.5 going forward. Higher recovery would enable the company to improve output and lower cost of production. This coupled with improved realization has enabled us to deliver better results in the sugar segment.

On the ethanol front, India is expected to meet its 5% blending targets. Sale of ethanol for blending is likely to about Rs. 120 crore liters this season, almost double from the previous year. With the Government further planning to increase blending we remain positive on this segment. As indicated earlier, going ahead we would be commencing our zero discharge in all the three distilleries. We hope to dispatch around 8 to 8.5 crore liters of ethanol in the coming year.

For the cogeneration segment volumes were slightly lower as we have diverted some of the bagasse towards incineration boiler and probably the benchmark figure would be slightly above this year but would not be at the 60 crore levels. However better realization and stable volumes plus there is a 2% uptick every year based on the UPRC orders have helped reports steady performance in this segment.

In conclusion we are grateful to the State and Central Government for the positive initiatives which has lead sugar sector recover from its worst ever crisis. We were witnessing improving dynamics across all our segments with better volumes and realization. This combined with our long held vision has been one of the most integrated and efficient sugar companies. Hopefully it will enable us to deliver sustained performance.

Now I would like to handover the floor to Pramod.

Pramod Patwari

Thank you. I will now briefly take you through the complete operating and financial performance for the quarter under review.

Overall revenues in Q4FY16 were higher by 17% y-o-y at Rs. 771 crore and for FY16 revenues stood at Rs. 2,757 crore, down 8%. Net profit for the quarter improved to Rs. 99 crore as compared to Rs. 76 crore in Q4FY15. Full year PAT stood at Rs. 99 crore compared to a loss of Rs. 58 crore last year. I would like to mention here that we had claims receivable amounting to Rs.169 crore in relation to Sugar Industry Promotion Policy, 2004 of the Government of UP. We continue to fight this case against the State Government in the Allahabad High Court. However, as per prudent accounting policy and conservative approach we have written off the entire amount from the P&L in Q4FY16.

Coming to our segmental performance; revenues from the sugar segment improved by 19% y-o-y to Rs. 714 crore in Q4FY16. The segment reported a PBIT of Rs. 157 crore as compared to a loss of Rs. 13 crore in the corresponding quarter

last year. During the quarter, sales volume stood at 18.06 lakh quintals as compared to 18.46 lakh quintals in Q4FY15. In the current quarter, realizations improved to Rs. 31.35 per kg as against Rs. 26.19 per kg in Q4FY15. As on March 31, 2016, sugar inventory stood at 57.16 lakh quintals.

In Q4FY16, revenues from the distillery division improved by 5% y-o-y to Rs. 69 crore. For FY16 revenues were stable at Rs. 271 crore. PBIT for the quarter enhanced by 20% yoy to Rs. 39 crore. Ethanol sales stood at 13,237 KL in the quarter as compared to 12,854 KL in Q4FY15. RS and ENA sales volumes during the quarter stood at 2,081.4 KL as compared to 3,318.2 KL in the corresponding quarter last year. Average realizations in Q4FY16 increased to Rs.40.66 per BL from Rs.38.78 per BL.

In our Co-generation business, revenues for the quarter and FY16 enhanced by 38% and 9% to Rs. 208 crore and 413 crore respectively. During the quarter, the segment reported a PBIT of Rs. 97 crore higher by 38% y-o-y. Sales during the quarter were at 24.82 crore units as compared to 24.39 crore units in Q4FY16. Average realizations in Q4FY16 were higher at Rs. 4.74 per unit as compared to Rs. 4.12 per unit in previous year.

I am glad to share that ICRA has upgraded its long-term loan rating on BCML to A+ and short-term credit facilities to A1+. Interest costs for the year were lower at Rs. 76 crore as compared to Rs. 102 crore in corresponding period last year. As on 31 March 2016 companies long term debt stood at Rs. 677 crore leading to a long term debt net-to-equity ratio of 0.55%. Within this long term debt of Rs. 677 crore, Rs. 423croreattract zero interest being the loan availed under the interest subversion scheme of the Government of India and Rs. 30 crore as interest at the rate of 4%.

This brings us to the end of my opening remarks. We would now like to address any questions 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 Mayank Sharma from Shasun Corp. Please go ahead.

Mayank Sharma

I just have a couple of questions. The first question is – what is the existing order book for ethanol, I mean how many days of capacity utilization has already been locked in as of 31 March 2016 going forward?

Vivek Saraogi

Order book right now is about 8.2 cr litre.

Mayank Sharma

So you will be I think you will go above 100% capacity utilization in ethanol this year. Now I just wanted to ask you our distillery margins are almost at 50% blended margins for the year. This is much higher than all the other companies. I mean a company of not comparable size but similar financial characteristics such as Dhampur, now they buy molasses from outside but that is only a Rs.2 difference. So there is a huge dichotomy between your margins and the other player margins. Any specific reason for that?

Vivek Saraogi

I will not be able to comment on the accounting practices of others, but we resort to transfer pricing system.

Pramod Patwari

And our transfer pricing is at Rs. 300 per quintal for molasses.

Vivek Saraogi So our transfer pricing for molasses from sugar to the distillery is Rs. 300.

Mayank Sharma Your transfer price is what?

Vivek Saraogi Rs. 300 a quintal or Rs. 3,000 a tonne.

Mayank Sharma Now the next question I had was what is the cost of inventory you said Rs. 27, so Rs. 27 per kg is including depreciation?

Vivek Saraogi Yes.

Mayank Sharma This is including the depreciation?

Vivek Saraogi Yes.

Mayank Sharma Now I just wanted to understand that how do you see cane prices in the new season the season which will come up now because I think the consensus is that they have to go up in UP, what is your personal view?

Vivek Saraogi Okay you are talking of the cane price for the next season?

Mayank Sharma Yes.

Vivek Saraogi Just let me clarify a few things. You have any other questions; I will try to sum up you?

Mayank Sharma I have two more.

Vivek Saraogi Please go ahead, I will answer at one go.

Mayank Sharma See the last question is that it is not a question it is a suggestion that this is going to be a reasonably good year for you compared to the bloodbath in the last three, four years and you would potentially repair your balance sheet. I mean your balance sheet is the best in the industry. But I was also going to insist that how about some value creation for minority shareholders not in terms of dividends but something like a buyback which is unheard of in the sugar industry because being the best run mill in the country you have never actually, see the industry is structured such that your hands have been tied but this year I would look forward to something like a buyback or a special dividend for shareholders?

Vivek Saraogi Okay.

Mayank Sharma Yes, I mean because the cost of debt is fairly low. So you will have excess surplus cash to deploy. So that was my suggestion.

Vivek Saraogi And I would also answer a few more questions which probably are in people's mind. See firstly let me go on to the ethanol segment and explain this distillery business. See at these levels our molasses is from within and we expect to produce about 8.2, 8.5 cr liter so that is why we have taken this level of orders. Now in the current year if you saw, the last quarter realization Pramod, what's the last quarter distillery realization?

Pramod Patwari Rs. 44.72 per liter.

Vivek Saraogi

Yes. If you see the year average, it is 40 point something and current quarter is 44 point something. This is basically that excise remission kicking in and for the first nine months we would be selling molasses at closer to 45 including the duty benefit. We would have an enhancement on volume which is only 6.5 crore last year owing to our you know we have more raw material in stock both ethanol and molasses to be able to handle the volume predicted next year plus we will have a kicker in the price for the first nine months. So I see this business this ethanol segment we are pretty well. And what I like about this whole thing is the permanent angle which Government of India has imparted in this whole module.

See if OMCs buy what you offer them at the price given by them, we are supplying to UP and West Bengal. So whatever capacity of ours gets absorbed in UP we have given. Either UP or West Bengal. So average I would say volume here is not a problem, pricing is determined by Government of India, whatever price they give we come forward. Having installed our incinerators and our zero discharge we see our ability which will get tested out in the current monsoon. So we are able to run in this extremely sensitive environment of pollution control by all the authorities. So we see ourselves being able to deliver the volume in the given environment at the price indicated. And hence this business and this segment would be a volume recorded to the level as indicated in permanence you know sustainable is the right word. So that would get enhanced and the pricing you are aware of.

Now if we come to the cogeneration segment, some bagasse is getting permanently diverted towards handling this environment issue which is to get mixed with that slop which gets burnt in the boiler. Earlier let us say our concept was 60 crore units. Let us take benchmark to be going ahead 55 crore units approximately. Pramod, how much sold this year?

Pramod Patwari

53 crore units.

Vivek Saraogi

So 55 is the reasonable benchmark to be able to work with. This is our basic premise. Cogen one should not look at 60 crore units in future however 55 but having said that the tariff is increasing 2% every year. So these are two completely sustainable models. Now I come to sugar. In sugar what has happened in the last few years owing the extreme crisis and Government of UP having paid Rs. 40 last year, Central Government having contributed by way of interest free loans and this MIQ contribution Rs. 4.5 per quintal of cane. The basic agenda which I think has permeated into the minds of both the Government is a price announcement should be such which is payable and hence if you saw even last year and this year UP government is saying if the price is X we will pay you certain subsidy. If the price is X plus we will pay you certain subsidy.

So in that way it is a backdoor benchmarking. Though not released or officially notified, one understands what has happened over the last few years. If you see FRP has not been raised this year it continues to be 230. Having said that yes if prices remain at a level current or above whatever I do not have a formula at hand. One thing you see definitely that the cane price goes up, but the going up will not be like you know unbridled and non-economic consideration or just the fact that UP is going to poll in 2017 and that is what we hear is basically price will go up and go up in how much a, b, c, d I do not agree with that. So that is just to give you a basis of how cane price looks to go up. So for just sort of whimsical or let us say political announcements of cane price I think are a feature of the past.

Having said that we have also worked hard in our cane and if you see we said against 11.1% we have said that our sustainable recovery looks like 10.5%. Just because the weather conditions were completely different. In my 30 years of experience I have not seen this weather condition. So I feel 10.5 is a good level.

Our debt levels are extremely under control you had correctly pointed out that our cost is low, Our endeavor as you said would be debt lightening and definitely anytime we can reward the shareholders in a manner which is proper. We never have shied away in the past nor do we look to shy away in the future.

Mayank Sharma

Mr. Saraogi, I just wanted to make a point that at least in the UP and Maharashtra I mean nobody till now has focused on the supply side constraints which are there. It is not as if every company is up and running. The best companies maybe the top ten or fifteen companies in the country have recovered, I mean are in a position to take advantage of ethanol pricing or of the stable operating environment. There are plenty of companies with very damaged balance sheets and I just wanted your view on the fact that there are plenty of other players which are maybe larger or slightly smaller which are still in very bad financial shape which still have not cleared the arrears like even Dhampur.

Is it a factor going forward that our shareholders pay attention too because we are only looking at demand if I mean everybody is focusing on the tussle between the sugar price and the government actions. But the supply side has fairly changed in composition. I mean it is not as if everybody is announcing there has been no addition of substantial supply in the last four, five years. So I mean you are in a much better position than the last up cycle where everybody announced CAPEX. This time I think your capacity constraint the industry's capacity constraint as far as ethanol is concerned. I would want your view on that?

Vivek Saraogi

See I would just say that you will see the data going ahead wherein you will see that our company is in a good position owing to (a) our volumes would not suffer even if you see the drought conditions in Maharashtra, Karnataka, UP is not that bad, our plantation we have early data so we cannot say much but we are hopeful of I would not say anything more than I do not see lower volume than this year in terms of cane crush or sugar, higher volumes definitely. Thirdly if you see the data of plantations and crushing, I have seen farmers not planting as much cane in the area of defaulters. People who have arrears would be suffering by lower plantation in their area. And that is extremely logical you do not require a genius to figure that out. So the definite advantage would lie with good companies and their ability to crush more and have more by-product and therefore deliver on all three segments. You are right it is definitely improved in this cycle and disproportionately higher than the life cycle.

Moderator

Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital (India) Pvt. Ltd. Please go ahead.

Vikram Suryavanshi

Can you just give some more developments in term of international market, how is the demand supply broadly impacting there what is happening in Brazil or Thailand or China?

Vivek Saraogi

Basically demand supply - you will see reports which say one day that your global surplus is out of the way, then you say shortage is there it is higher. Basically I think these levels which are prevailing now and we are hearing of some tax in Brazil on gasoline. If that happens it is a positive for ethanol diversion which means lower sugar. There are so many variables playing along from Thailand as basically the assumption is these prices are stable at global level.

Vikram Suryavanshi

There were reports that Brazil production will be higher than earlier expectations so that can reduce the global rates so is there any significant change happening in Brazil production in last few months that is an indication from that side?

Vivek Saraogi No, I do not see that. I think in that you have India which exported which will not export so there are other global players and I just explained to you about the diversion into ethanol. And I am saying with a disclaimer that we are not international experts. I way more understand the domestic market but yes we are in touch with the international markets, our assumption based on what you said still remains the same. Pramod, we are talking of stable levels?

Pramod Patwari Yes.

Vikram Suryavanshi Okay and how important is this recent development where Government has allowed to clearly movement of this ethanol or fuel ethanol between the states or sugar companies for you particularly?

Vivek Saraogi Just we are able to send ethanol to Bengal so that is not a major problem.

Vikram Suryavanshi And this excise benefit is only for this year what Government has given?

Vivek Saraogi No, excise benefit is up to sales for this year molasses which extends up to November or December. First nine months' dispatches.

Moderator Thank you. The next question is from the line of Ravikant S. from Systematix Shares. Please go ahead.

Ravikant S One quick data point from my side. What is the cost of inventory on the balance sheet, sir?

Pramod Patwari Rs. 27 Per kg

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

Nirav Shah Just needed one clarification on the scrapping of export policy. Can you just throw light whether we are still eligible for that and has it already the cash flows have come or not or it will directly be paid to the farmers?

Vivek Saraogi Let me clarify. There are three, four kind of news that is going around. One is MIQ discontinuance. So yes, definitely we are in a tight demand surplus scenario. The MIQ suspension or revocation from prospective method is absolutely okay and I am with the decision. However there is absolute clarity in our mind that those people who have exported will get the commitment which the Government has made. Thirdly, there are ample stocks which I have said in my opening remarks; we would be ending with around 7 million. Hence I just do not see any need for lowering of import duty. People who would rather have arrears become zero. Now neither pay off the excess debt which was in the form of the Government loans which was nothing but loss funding.

And people would go ahead and if at all go and see the cane prices can be raised in a manner which is commensurate with the sugar price rise, rather than we look at lowering an import duty which is out of question when you give in six months back an export incentive. So I am definitely clear and yes another step is the Government of India has done that is the stock limit is to my mind a step in the right direction because what does that do. That says when miller sells it should be based on consumption and not based on storage. So let demand and supply determine the course of the market and nothing in the middle should cause any other anomaly.

Nirav Shah So as on date we have met our 80%?

Vivek Saraogi Yes.

Nirav Shah But no official confirmation or notification has come from the Government on this regard, right sir?

Vivek Saraogi Which notification?

Nirav Shah Export MIEQ policies Rs. 4.5 a quintal?

Vivek Saraogi No, notification is already in place. See understand, please let us all understand, they said no more exports based on MIEQ henceforth. The notification of the earlier is 100% valid; there is no ambiguity or debate in my mind.

Moderator Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings Pvt. Ltd. Please go ahead.

Bhavin Chheda What was the closing stock of molasses, ethanol and bagasse as on 31 March?

Pramod Patwari Ethanol is 1.21 crore liters, molasses 25 lakh quintals, bagasse 4 lakh metric tonnes.

Bhavin Chheda And regarding this claims receivable Rs. 169 crore which you have written off still it is disputed and we can get it back or what is the status of the dispute?

Vivek Saraogi I will just explain this because I have got a lot of queries on this one. Incentives announced by Government of UP in 2004 got scrapped in 2007 thereafter we have doing continued litigation on the same. Whatever orders we received and whatever part of that got followed by the government was the waivers which the Government gave was forthcoming and the Court held that the waiver should continue. The rest of the matters relating to reimbursements, capital subsidies, etc., till now despite our best efforts no order have come or no money has come.

We continue to litigate we are very hopeful and if you ask me based on promissory estoppels and even there is a judgment today reported in The Business Standard about Supreme Court. It says that promissory estopples absolutely sacrosanct. Having said that we have been carrying on this figure in our balance sheet and hence having not got the money based on the Board's debate and opinions, etc., it was prudent to write it off in the current year and as and when you get the same again and when you get the money cash in the banks one will account for it back again. So whatever is accounted for now, or as incentives is the waiver which you continue to get year-on-year basis and that is not in litigation zone.

Bhavin Chheda And, you mentioned the industry ethanol sales of 120 crore liters, this is achieved in 2016 fiscal or this is the current order book which will be achieved in this sugar season?

Vivek Saraogi Bhavin, this is the figures which will be achieved in the current October-November sugar year.

Bhavin Chheda Okay so this is the current order book of the OMCs right now?

Vivek Saraogi Yes, our sugar fiscal is 1 October till 30 September.

Bhavin Chheda Right and you said your order was close to 8.2 crore liters in this order book?

Vivek Saraogi Yes.

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

Siddharth Mohta My question is with respect to import duty which is currently at 40%. So my question is at what percentage of import duty would you think that import of raw sugar will be profitable? And if you can also help me with the working?

Vivek Saraogi I have said in my view I do not see this happening. If ever this is to happen let us say it is lower, my personal view is and this is absolutely a personal view that the world market if India touches the world market with let us say 100,000 tonnes the world market will be on fire. So at that point of time any based on what I have said I do not see sugar coming into India.

Siddharth Mohta Okay.

Vivek Saraogi If India touches the world market let us say 10% your 10% lower import duties have no value.

Siddharth Mohta Okay or from 40% if it is like reduced to like 10% then also?

Vivek Saraogi Then what are we playing for, if you want to lower the sugar price which is cost plus for people like us and cost many places and you have cane arrears and you have cane price to be declared next year which side of the coin are we looking at. Why did the government give an incentive, why did the government come forward, why did the government give interest free loans, this MIQ schemes was clearly to take the price up so that the cane price declared by them is payable. It is a part of the premise.

Siddharth Mohta Sir, because why I am asking because now the retail price it has touched like Rs. 40, Rs. 41 so they might be little uncomfortable?

Vivek Saraogi I think personally my view is these levels are digestible, they are not part of the hue and cry program. This is not in that zone.

Siddharth Mohta Okay and sir my second question if you can help me with the inventory gain in our sugar division for this quarter which is certainly captured in increase or decrease in WIP and finished goods?

Vivek Saraogi We said we are 57 lakh bags carry forwarded Rs.27 per kg.

Siddharth Mohta Okay and sir any debt reduction plan for this financial year that is FY17?

Pramod Patwari We have a scheduled repayment of around Rs. 175 crore during fiscal 2017. But we will have the option of prepaying some of our term loan as we move ahead. In fact, in the month of April we have already paid Rs. 125 crore.

Siddharth Mohta That is in the month of April, Rs. 125 crore? So the remaining Rs. 50 crore we can pay further?

Pramod Patwari Yes, as of now it is Rs. 550 crore of long term debt.

Moderator Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar Just a thought process. The current scenario continues there will be a lot of profitability cash flows that you will be seeing across would that be first deployed for debt repayment or we will like to retain that and we will look for some inorganic opportunity?

Vivek Saraogi Our policy is debt repayment, shareholders return and if any business which we feel is absolutely in our minds something which is good sustainable will come back to the shareholders.

Nitin Gosar And, inventory valuation I just heard on sugar is around Rs. 2,700 a quintal. Is it correct?

Vivek Saraogi Yes.

Nitin Gosar Okay and for the year that we are looking forward to what kind of volume number we should be projecting in for distillery business?

Vivek Saraogi Between 8 crore liters and 8.5 crore liters.

Nitin Gosar And on sugar what are the realization as of today that we are seeing?

Vivek Saraogi Around Rs.34.

Moderator Thank you. The next question is from the line of Bharat Shah from ICICI Ventures. Please go ahead.

Bharat Shah I had just one question. Are we looking at uniform operations of our cogen plant throughout the year?

Vivek Saraogi Yes.

Bharat Shah So the realizations from the Cogen would remain more or less same at 400 crore for the entire year?

Vivek Saraogi No, there will be a 2% increase; say 08 paise or 09 paise increase in the realizations.

Bharat Shah And we said about 4 crore liters for inventory for ethanol as on 31 March, right?

Vivek Saraogi No.

Pramod Patwari 1.21 crore.

Vivek Saraogi See instead of looking at the stock you have you should look at the dispatch during the year.

Bharat Shah Okay so during the year we are looking at about 8.2 crore liters of dispatch?

Vivek Saraogi Yes.

Moderator Thank you. Next question is from the line of Nimish Sheth from GT Advisors. Please go ahead.

Nimish Sheth This is a hypothetical question you have tackled this question during this con call. At 0% import duty for white sugar and at \$480 price in London Market what is the landed price of imported sugar if it was to hit one of the ports Madras or whatever? This is just a hypothetical question.

Vivek Saraogi We have not done the calculation, we will get back to you.

Moderator Thank you. The next question is from the line of Arun Malhotra from Santalum Capital Advisors. Please go ahead.

Arun Malhotra My question was related to this Rs. 169 crore write offs. Was it any sudden turn up events in the last few months that made you do this or just the higher profitability that made you thought?

Vivek Saraogi See let me explain the question. We had various judgments Supreme Court, High Court still we are unable to get the cash and still we are agitating in High Court. So it was based on prudent advice and it was reflecting in other non-current assets. So having seen no benefit for that and having seen that we were in court for the last almost nine years and the prudent advice by our auditors was not to have a balance sheet with debtors which today has not been realized for over a long period of time.

Arun Malhotra Any other such negative surprise element in the balance sheet which is sitting there because this number was not there in anybody's expectation?

Vivek Saraogi Okay let me request you to see this in another format. Instead of calling it a negative surprise the fact that the money did not come in, it was written off in the accounts. And if suppose it was not written off, how is the health of the company changed in the current year, how is the health of the company going to change in the next year. So I do not look at this as a negative surprise I do not see us doing anything which is I call in the language a negative surprise.

We are only doing something which is clearly in front of all of you, in all the balance sheets this figure is being clearly highlighted all our disclosures have always held this figure out in the open and hence we do not we are doing extremely prudent/conservative accounting policy. I would, you know, see this not as a negative surprise and it is something which is known to all of you I guess. So we have not done this as a negative surprise and we see that let us understand one thing. I am seeing as a promoter or as the Managing Director we are seeing sustainability of money.

So we are focused a lot on the ethanol business explained to you how in the monsoon in the current environment of pollution control, how we will be able to run. Power is giving us heads up, sugar is getting heads up on how we hope to improve our recovery and how the government schemes of the past has clearly laid out the path in the future where the sugar division would not be subject to the kind of losses we went through. Rather I would look at we want to come back to investors and say after a year I see sugar division also in some kind of a formula zone where I can come and tell you people that you know sugar gives so much rupees a kg for Balrampur as profitability.

If you see our efforts our interest cost has come down to Rs. 75 crore from Rs. 100 crore, ICRA has upgraded the credit ratings and we are availing short term funds at

around 8%. We are going to pay off all our debts, money will not be utilized for any business or activity which we do not see as absolutely sustainable and correct. We are here with our farmers, we are here with our bankers, we are here with our shareholders. So that is all what I want to say.

Arun Malhotra Second thing on any CAPEX on distillery or in the company envisaged in the next two years?

Vivek Saraogi We cannot predict two years all we said right now is we are doing CAPEX and it is already declared on the distillery side that is to make it zero pollution and we will be doing some small things which at the right time debottlenecking, some savings, power saving in bagasse, those kinds of stuff nothing major.

Arun Malhotra Sure and lastly sir, standing today the scenario seems to be too rosy and looking at the quantum of stock which you have in your balance sheet and the gross price at Rs. 27 per kg and the current market price is there anything which worries you what could be the challenges going ahead, what could be the worrisome factor for you?

Vivek Saraogi You are seeing Balrampur's balance sheet and yet things are good because of our complete discipline. However, we would still see in the sector as if I remember, Mr. Mayank pointing out that this is not the scenario prevalent in all the industry players. Hence the Government's mandate would be to get the cane price cleared from all and sundry and I am not overly worried on import duty if that is what you are saying. I am not worried sugar price overly. I have told you about the cane price what I see. It should be raised in some proportion to the sugar price in some formula based method. Distillery business is already contracted. Power we are in PPA. So I have gone through all the lines of our business and I have laid out to you my thoughts.

Moderator Thank you. The next question is from the line of Rajesh Kothari from Alf Accurate Advisors Pvt. Ltd. Please go ahead.

Rajesh Kothari For next year what kind of stocks position you are looking at what kind of production you are looking for the industry?

Vivek Saraogi For which year?

Rajesh Kothari September 2016-17?

Vivek Saraogi It is too early because the data is not out, our planting data. In Maharashtra and Karnataka from their cane commissioner or their statements which we read in the press, etc., and what our feedback is. It looks to be lower but I am not in the camp which you are saying you know next year production would be 22 million tones and all that. So if one is to hazard a guess and I use the language hazard a guess maybe 5% lower than this year. Still going ahead next year's ending would be above 5 million tones. And still I do not see we need for imports even in the next year.

Rajesh Kothari And one query which somebody has asked and I think you answered but I missed that. Is that what kind of a distillery business you are looking for next year in terms of the profitability?

Vivek Saraogi 8.2 crore liters.

Rajesh Kothari 8.2 crore you mean for FY17?

Vivek Saraogi Yes balance sheet 2016-17 dispatch of ethanol.

Rajesh Kothari 8.2 crore liter and that will have the pricing for nine months about Rs.45, correct?

Vivek Saraogi For nine months 45.

Rajesh Kothari Okay and what would be the blended realization that you are looking for?

Vivek Saraogi No, we are only selling basically ethanol only.

Rajesh Kothari Okay because sorry but in your presentation I was looking at blended is so much and ethanol is so much so ethanol is looking like 22% of the total?

Vivek Saraogi No.

Pramod Patwari We have already achieved 90% as in ethanol. Going forward this will go up only.

Vivek Saraogi It can be 98, 97 around that range.

Moderator Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi Basically when we are seeing significant improvement in recovery in sugar from say like earlier lows of like 9.7% to more than 11%. Has there been any change in the molasses output during the same time like per tonne of cane earlier the molasses was so much and now there has been any change from that?

Vivek Saraogi Good question. Good cane variety has lesser molasses but the canes are not too huge. So let us assume it was 5% goes into 4.95% like that.

Vikram Suryavanshi Okay so there has not been much a decline basically.

Vivek Saraogi No.

Vikram Suryavanshi Okay and is there any possibility that with the new order or something we can require transfer more of juice to ethanol side as and when required?

Vivek Saraogi No, see our molasses in the system whatever production we can get out of that are factored in when I have given you the volume guidelines.

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

Saket Kapoor Sir, I am telling that considering today's prices of sugar and the initiative taken by the government can investors assume that the structural change has taken place in the sugar industry as a whole and these exaggerations in the numbers means reporting profit and losses will be things of the past? Is it safe to assume now that with the government taking initiatives and pulling sugar sector out of its doldrums investors can now rely on these stable set of numbers going forward also, provided the sugar prices remaining stable and that the ethanol policy continuing the way it is?

Vivek Saraogi See that is a very good question. I think what I have been trying to emphasize if you see the Honorable Finance Minister interviews he has mentioned that our initiative has taken sugar and steel and it helps the NPA levels of the Banks we

have corrected the sugar sector. I am definitely of the view see another thing which has happened the Government of India is put a one rupee cess on sugar. But they are raising from Rs.2,500 crore.

They are building up their kitty by Rs. 2,500 crore a year to be used for the sector. I am completely of the belief that Government of India and UP having seen what they have gone through will not let this sector collapse and if they want the cane price paid are very clear in their minds that it should be in sync with the sugar price. So yes I definitely see a structural change. I have been giving you the structural changes in the distillery business I have told you about power and even based on sugar. I am definitely of the view that sustainability is the going to be the buzzword ahead.

- Saket Kapoor** And sir, now coming to this ethanol pricing issue how has this affected the alcohol prices internationally also because how its import and substitute for ethanol blending?
- Vivek Saraogi** So I think OMCs are buyers for domestically produced ethanol and earlier they had put in a global tender I do not think they got a very handsome response but their appetite and what our are supplies and the imported price I do not see a worry on that account.
- Saket Kapoor** Sir, are the import quality prices are on the similar lines which they are offering or there is a significant premium being offered by the OMCs
- Vivek Saraogi** After factoring in for the logistics cost we will work that out but after factoring for logistics cost, etc., I do not think that is a threat.
- Saket Kapoor** And for that 8.2 crore liters it is Rs. 49 per liter that is being?
- Vivek Saraogi** No, around Rs. 45 per liter.
- Saket Kapoor** Around Rs. 45 per liter and the logistic cost and that will be borne by OMCs separately?
- Vivek Saraogi** Yes we are talking our ex-factory realization including the duty benefit.
- Saket Kapoor** Okay sir and now are you selling the entire ethanol totally to the OMCs or the chemical industry is also getting their dues mainly how is that?
- Vivek Saraogi** We are offering to the chemical industry at competitive prices based on market so whoever buys will be willing to sell.
- Saket Kapoor** You are matching the prices of OMCs through the chemical industry also?
- Vivek Saraogi** Yes why not we are businessmen whoever buys and gives us the best realization we need to go for it.
- Saket Kapoor** So are they matching the same or they are relying on this import substitute?
- Vivek Saraogi** We have offered it we have not yet got their response. So I assume they are not buying from us.
- Saket Kapoor** So the main buyers are the OMCs?

Vivek Saraogi

Yes.

Moderator

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

Vivek Saraogi

Thank you everyone for joining on the con call. And should anybody need any other clarification me and Pramod we are there and be of all assistance to you. Thank you.

Moderator

Thank you very much, sir. Ladies and gentlemen, on behalf of Balrampur Chini Mills Limited that concludes this conference call. Thank you for joining us.