



Balrampur Chini Mills Limited

Q1 FY24 Results Conference Call Transcript August 07, 2023

Moderator Ladies and gentlemen, good day and welcome to the Balrampur Chini Mills Limited's Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari Thank you. Good afternoon, everyone and thank you for joining us on Balrampur Chini Mills Q1 FY24 Results Conference Call.

We have with us Mr. Vivek Saraogi - Chairman and Managing Director, Ms. Avantika Saraogi – Business Lead, and Mr. Pramod Patwari – Chief Financial Officer of the Company.

We'll initiate the call with opening remarks from the management, following which we'll have the Forum open for a question-and-answer session.

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 with you earlier. I would now like to invite Mr. Saraogi to make his opening remarks.

Vivek Saraogi Thank you, Anoop. Good afternoon everyone and thank you for joining us on Balrampur's Q1 FY24 Earnings Conference Call. I trust all of you had the opportunity to go through our results presentation providing details of our operational and financial performance. I will initiate the call with an update on the current developments in the sector, followed by our Company's key highlights for the period under review.

India's net sugar production for 2022-23 season, is estimated at 32.8 million tonnes. Recently, ISMA released its preliminary estimate for next season's production to be 31.7 million tonnes. However, internally, at Balrampur, we believe that this production should be about 32.5 million tonnes. This is based on our view and our direct update with Maharashtra, Karnataka and UP. This suggests a second year of decline. Nonetheless, we anticipate that there will be sufficient sugar inventory in the system and sugar prices would remain slightly firm until the onset of next season. So, 32.5 million tonnes is our estimate net of ethanol diversion and 28 million tonnes being consumption, we believe that there is not only ample sugar available for domestic consumption, but there is an opportunity for export of sugar also. So, with global prices continuing to remain at elevated level, we expect the government to decide on exports only after assessing the estimates of this ensuing season, which maybe because of elections, the government may take a little more time until it gets sure of the production, the export announcement may be delayed in this year compared to previous years by a couple of months. So, that's our view.

So, last year, as Pramod reminds me, it was announced in December. Maybe being cautious and conscience of the election, maybe it goes to January, February, something like that. But yes, if there is a surplus, our belief is timing apart that quantum should be evicted based on the export allowance by the government.

On the ethanol front, even though there has been a decline in sugar production, diversion of ethanol is expected to be 3.9 million tonnes this year, compared to 3.5 million tonnes in the previous year. Additionally, amidst the stoppage of subsidized rice from FCI, grain based capacities are facing challenges. We believe that this is a temporary halt and the government should allow FCI rice to grain based mills sooner than later.

On the business front, our Company commenced this fiscal on a strong note with higher volume and realizations resulting in healthy contributions from both sugar and distillery divisions. As we have discussed in the past, and Avantika will share the update on cane developments wherein we have put in immense work, collaborated closely with the farmer, which has been instrumental in enhancing the quality of cane and acreage in our various areas. This effort has led to a 16% increase during the crushing season 2022-23 as compared to 2021-22 and we are optimistic of a further 10% increase in the next season. Contingent obviously to the balance period of monsoon which Avantika would brief. Additionally, Brownfield capacity expansion at Kumbhi facility is progressing smoothly and is on schedule to operate this plant with enhanced capacity from the beginning of the next season.

Regarding our distillery business, I am pleased to share that this division has performed well during this quarter, especially with that newly expanded capacity, which is now fully operational. However, due to an unexpected halt in FCI rice, the actual supply might fall short of the quantity we contracted with OMC. This is to the extent of the rice quantity we had tendered. Moreover, the past few months have seen a sharp escalation in broken rice prices, which is bought from the open market and which has been, currently, partly taken care by this incentive, which has been declared at Rs. 4.75 per liter effective from 7th August 2023, so the quantum of ethanol supplied from open market rice will give us an additional realization of 4.75 per liter beginning 7th August 2023. And as we said, we are hopeful that the acreage of rice having increased and probably also looking at not lower yields which the government is anticipating, maybe the FCI rice would be allowed at some point.

In conclusion, our integrated business model has always focused on maximizing value from each stick of cane and we are committed to generating value for all stakeholders through prudent investments and capital allocation strategy. This approach has been instrumental in creating sustainable value for all our stakeholders.

I now request Avantika to give you an update on the cane.

Avantika Saraogi

Good afternoon, everyone and thank you for joining us on our Q1 FY24 Earnings Call. I just want to brief you about the cane scenario of Balrampur.

In the quarter gone by, there have been some concerns about El Nino and the rain, but I want to say that for us in particular in all our 10 mill areas, the rain pattern has been extremely conducive to everything that we are trying to do. It has been intermittent, there has been no deluge. This gives us irrigation, which is light and does not cause any kind of downturn in the cane. And it gives the farmers time to do intercultural operations, earthing up and all the other fertilizer application, insect pest disease control and everything. So, we have actually in a long time we have not been able to see this kind of conducive weather conditions, which we have seen this year. So, we are very hopeful that a 10% increase should be easy for the coming season,



of course, barring August, September, October, is yet to play out, but it seems very promising as of now.

As I've mentioned, insect pest disease is negligible and completely under control this year. My father also alluded to the fact that variety has been changed and it is in a much better position, so this will influence cane availability as well as recoveries, whether it is ethanol or sugar, that would probably have an effect on the profitability of both segments as well.

And one more update from the tissue culture side is that our tissue culture lab is performing at full capacity and it has really performed beyond our expectations and is yielding very good seed material which we have been able to use to multiply the new varieties that are required for our areas. And just one other highlight which I would like to give is that in the initial part of the monsoon when it was weak around the entire country, our farmers stepped up and they have done 4 to 5 irrigations in their crop, which is unheard of in UP East especially, and even central.

So, this has really given a boost to our cane crop and we are very hopeful for the coming season. Thank you.

Vivek Saraogi

I would like to add that for our area if there is no rainfall post August end, we stand to benefit. As you would recall in the last few years, we were not only hit by a bitter disease, but erratic rainfall leading to flooding during the months of September and October, which impeded growth and also had a negative impact on recovery. So, we are all hopeful that maybe El Nino can benefit us, but too early to say. We have to watch September and October. Pramod, onto you.

Pramod Patwari

Thank you and good afternoon everyone. A detailed presentation is already available with you. We can straight away move to the question and answer session. Thank you.

Moderator

Thank you very much. We will now begin the question and answer session.

The first question is from the line of Prashant Biyani from Elara Securities.

Prashant Biyani

So, what is the current scenario with regard to grain-based ethanol feed stock? How much stock do we have in house?

Vivek Saraogi

We were allotted about 87,000 tonnes of FCI rice for ESY 22-23. We have managed to procure almost 71,500 tonnes, so which is in our godown and it is being processed. ~25,000 tonnes was stock as on 30th June 2023.

Prashant Biyani

And this 25,000 tonnes we can use for quarter 2 and beyond.

Vivek Saraogi

Yes.

Prashant Biyani

How will OMC decide whether the ethanol is made from FCI rice or open market rice?

Vivek Saraogi

So, it is a good question. So, just to take you through a little detail, when you put in a tender for FCI rice, the moment your tender is allotted to you, the consequent amount of FCI rice is given to you, which envisages a certain recovery. So, if you picked up 100 Kgs of rice and your recovery, let's say 50, you have to give 50 liters of ethanol. So, that's the way they monitor.



- Prashant Biyani** And secondly sir, how is the crop condition in Karnataka, Maharashtra and Tamil Nadu going by ISMA's numbers, the situation looks quite difficult in South. Is it a crop specific problem or do you expect some improvement in these numbers?
- Avantika Saraogi** So, plant-to-ratoon ratio in the South is actually better. There is more plant than ratoon this year, but basically the concern was which I also do, they have overestimated the concern that the initial part of the year when the rain was lacking as I had also mentioned, then at the time, they are saying that, that growth which was stunted may not be able to get recovered, but then, having said that, this estimate came at a very cusp time. The reservoirs are now full and it is now looking good, but they're not able to estimate the recovery of it. But we feel that it should be more than whatever is presented by ISMA. I think they are being quite cautious in their estimates.
- Prashant Biyani** Right. And lastly, sir, from the industry point of view, what are the opportunities available for us to achieve sizable growth in the next 3 to 5 years and how can we get the feed stock for the same?
- Vivek Saraogi** So, you are talking of growth in ethanol business, right?
- Prashant Biyani** Sub segment agnostic be it sugar, ethanol, or whichever segment you think that Balrampur or the industry as such has headroom to grow?
- Vivek Saraogi** So, what we are doing, we can supply more ethanol based on our increased capacity and availability of cane. As Avantika pointed out, we are looking at 10% higher and maybe we can handle another 7%-8% after that also. So, our first objective would be to fulfill this target. Second objective is to ensure that the growth does not reverse, which means cane gets crushed on time. Linked with this is to develop the best varietal balance so that not only can we get our required amount of cane, but we can get the best recovery. So, this is for the business. In our sugar side, we were adding capacity in Kumbhi, maybe as time progresses, we could have a couple of other minor 5% to 7% expansions in some other area. Following which, we could also expand some distilleries. So, on this canvas which we are existing would be more 5% to 7% kind of thing yearly debottlenecking, but yes, slowly the numbers would look to creep up, 5%-7% per year. So, that is how things look like for our sugar business. Outside of that, if there is any other good M&A opportunity which fits our sort of hygiene standards and our numbers, we would definitely look at that. Other opportunities the Company continues to explore as and when something is finalized, the board will sort of give its go ahead or you will hear from us.
- Moderator** The next question is from the line of Shailesh Kanani from Centrum Broking.
- Shailesh Kanani** Congratulations sir for a strong set of numbers given the challenges during the quarter. Sir, the first question was on margin front. The cane cost for the first quarter has seen a substantial dip and resultant our cost of production is also lower. So, how do we factor in this margin expansion for the full year? How do we see this?
- Pramod Patwari** So, Shailesh, during this quarter, the recovery from sugarcane was high at 11.82% vis-à-vis 11.24% in the corresponding quarter last year. So, that is the reason that incidence of cane cost you will see on a lower side.
- Shailesh Kanani** Right. So, there is a sharp dip year-on-year, right? So, what is the bump up we can expect on the margin for consolidated for the full year, if you can give some guidance on that?



- Pramod Patwari** See, we hardly give profitability guidance. We are yet to see the cane price announcement for the current sugar season. So, it will be difficult to give any guidance at this point in time when we ourselves don't know the raw material cost.
- Shailesh Kanani** But is it fair to assume that there would be a substantially higher margin as compared to FY23, right? Wouldn't that be a fair assumption?
- Pramod Patwari** You can make some inference by going back 2 years when we were having good amount of cane availability.
- Vivek Saraogi** I will try to be a little more optimistic & clear than Pramod. Pramod is giving you the hint. The volume play which sort of starved us or strangulated us in the last 2 years and the recovery, you've seen a decent bump up last year, you will see a further bump up in both numbers, hopefully the quantum crush and the recovery. So, obviously that will give you better results as you go ahead.
- Shailesh Kanani** That's helpful. So, the second question is with respect to inventory holding of alcohol, there is an increase in the quantum of alcohol we are holding even on a year-on-year and quarter-on-quarter basis. So, can you throw some light on this and how is the situation on ground with respect to offtake from OMC side?
- Pramod Patwari** So, we are holding inventory of around 3.17 crore liter. There is 2 parts to it, because of the increase in the capacity, the production is on a higher side. So, naturally, there will be more inventory if we compare with the previous number. That is one part and, in the period, ended up to June, lifting from the oil marketing companies were on a lower side. Having said that, from the third week onwards, lifting has substantially improved. Going forward, you must assume around one month of inventory as closing stock.
- Vivek Saraogi** So, I'd just like to take this question a little further. So, yes, as Pramod said there was a bit of a period probably when the depots got jammed, but our lifting in July and till now in August has been phenomenal. So, let's just get a few markers in place. One, whatever you tender will be lifted up, 15 days to a month here and there should not bother anybody because the entire tender will be lifted. Two, if everybody wants to dispose of his ethanol on the same day, where will the OMC store it, and how will they supply during the lean period like September, October, when hardly any goods come to them. So, there has to be some storage at the mills end, some storage at the OMC's end. Having said that, whatever you tender for will get lifted. Three, there will be questions on this grain and juice business. Let me just clarify. So, what is happening is FCI rice is subsidized rice. I believe the data by the government is around Rs.15 subsidy is there in that rice. Now, maybe this year the balance rice may be supplied, maybe next year this might not be there or might be there in a much lesser way. People would have to rely on the open market rice. Having said that, the open market rice price therefore must be increased because there will be pressure on that rice and the price construct has gone up. This Rs. 4.75 per liter is an incentive for the balance period of this tender year which expires on 31st October 2023. The next year's tender, next year's pricing would come sometime maybe in August or September. One should see a definitely higher price there. So, there would be periods when one can get supply of that strong people can store that and do their business. We find ourselves adequately equipped to take care of that opportunity, both in terms of cash flow and storage. Next, in order to ensure that the PM's program of E20 goes ahead, there has to be an impetus on juice diversion towards ethanol. So, we have represented very strongly and are hopeful that the juice-based ethanol price should go up a little more than the FRP price. So, this basic revision happens as a result of the FRP increase. So, let's say 3% is the FRP increase and let's assume 3% is a normal increase on B-heavy and juice. Maybe you will see a bit of a higher increase on the juice front to incentivize people to put in more capacity,



divert more juice and improve the juice margins. So, that again takes care of our two capacities at Balrampur and Maizapur. So, I've briefed you on juice, juice price. I've briefed you on FRP and the consequent increase in ethanol prices of B, C, and juice route and also any sort of suspense or tension anybody has on lifting of the entire quantities tendered to the OMCs.

- Shailesh Kanani** Thanks a lot, sir. That's useful. Just last clarification. So, our guidance of around 35 crore for FY24 of ethanol including the ENA stands same, right? There is no revision in that?
- Pramod Patwari** So, let me give you an update on this. 35 crore liter is our production ability on an annual basis. Now for the FY24 as of now, we are estimating a production of around 30-31 crore liter with reduced availability of rice from FCI as well as the open market and if the production is in that range, then the sales would be in the range of around 28-29 crore liter including ENA.
- Vivek Saraogi** So, whatever the shortfall is on account of rice.
- Shailesh Kanani** So, if I recall out of 35 crore liters, around 5.5 crore liter was from the grain, right? If my numbers are right around.
- Vivek Saraogi** 4.86 crore liter.
- Shailesh Kanani** For the financial year, right. So, we are downgrading the sales volume to that extent to the whole 5 crore?
- Vivek Saraogi** For reasons beyond our control.
- Shailesh Kanani** So, wouldn't that 2-2.5 crore inventory we have as on FY23 would be useful here?
- Pramod Patwari** FY23 inventory was 50 lakh liters. Going forward, we will have to assume between anything between 2.5 to 3 crore liters as a closing inventory on the reporting basis.
- Vivek Saraogi** So, inventory word should not bother you, it only should be an accounting entry.
- Pramod Patwari** And this will be one time as far as FY24 is concerned. Thereafter it will become a nominal phenomenon.
- Moderator** The next question is from the line of Dhvaneet Savla from DN Trading.
- Dhvaneet Savla** First of all, sir, congratulations on especially the increase in the cane and better efficiency in the crushing. I had just one question. This is with regards to our future sugar capacity of around 2000 TCD, which we are currently under implementation, right? whether we are still on track to complete this project. Additionally, could you provide insight into the anticipated impact on our overall revenue? Furthermore, once this implementation is finished, could you please share the projected distribution between sugar and distillery revenue as we move forward from the commencement of its operation?
- Vivek Saraogi** As I said in my opening remarks, the capacity expansion is on track. It will begin probably as early as the first week of November. Whatever cane is crushed extra maybe 15, 20, 25 lakhs quintals will be, as I said, I can't give cane projections till we reach closer to the season. Whatever is crushed extra, would add to the topline.



Dhvaneet Savla And going forward, what will be the split of revenue or that also you can't be sure about at this time. For example, right now it is like 70% of our topline comes from sugar and like 30% odd comes from distillery. So, going forward, will that be more of a 50:50. Can that be said or that is also too early to say so?

Pramod Patwari No, as of now, distillery revenue is 30% and going forward it should be around 35%.

Moderator The next question is from the line of Kaustubh Pawaskar from Sharekhan.

Kaustubh Pawaskar So, my question is again on the grain-based distillery. So, OMC have increased the ethanol prices for production through maize or other food grains. So, in that context, aren't we considering that as an option to produce ethanol, I don't know whether you spoke about it or I missed that point, but are we looking at that as an option?

Vivek Saraogi So, yes, I did attempt to clarify earlier. I will attempt to do it again. The Rs. 4.75 per liter rise in price is not adequate. Broken rice, which is the open market rice, our estimate was Rs. 20 per kg on the price given by the government, at Rs. 24 per kg also availabilities at best frugal. Rs.4 per kg increase in raw material price requires a Rs.8 plus per liter increase in ethanol price to compensate that increase in raw material price, so it's 1:2.2. So, currently also this is maybe a step to begin with, but it will not add to profitability, it will lower the loss. There is no sort of tailwind in this announcement until unless there is a revision for next year and you get the rice at the correct time and you are able to buy it and store it, which we will be alert for next year based on improved prices.

Kaustubh Pawaskar Right. And one more clarification, this 10% increase what we are expecting this year in sugar, this is excluding the risk of any extended monsoon because last 2 years we have been seeing that the monsoons have been making erratic and it is getting extended over the period of time. Octobers are not good for us if monsoon gets extended to October, so that still remains a risk right for that 10% kind of an increase, what we're expecting?

Vivek Saraogi Hardly. So, yes, Avantika did say that, but the weather conditions don't kind of indicate a late rainfall, but till now the growth is sort of enough to justify our optimism; however, just wait for a couple of months.

Moderator The next question is from Nikhil Gada from Abakkus Asset Management.

Nikhil Gada Congrats on a strong set of numbers. Sir, my first question is when you mentioned this 31-32 crore liter of production, would it be possible sir to break it down into different routes for us?

Vivek Saraogi Yes, we'll answer that in a bit on this call itself.

Nikhil Gada Fair enough. Sure, Sir. And just because the route variation is changing in terms of the mix, especially for FY24, is it possible to give just a ballpark understanding in terms of what would be the EBIT margins specifically for the distillery business for us?

Pramod Patwari So, because of the intersegmental raw material transfer pricing, which changes frequently, it is difficult to give the segment wise guidance. We would always recommend assessing the performance of the Company or the sector on a yearly basis as well as at the Company level.

Vivek Saraogi So, because of the conditions of current market price etc., they changed the transfer pricing. That is, I think what Pramod said. Hence because if there is higher transfer



pricing, let us say distillery profit might sound lower; however, the sugar profit will improve. Money stays in the Company.

- Nikhil Gada** So, the reason for asking this specifically is that just wanted to pick your brains on when do we switch? how much we'll do from juice or how much we'll do from B-heavy or even now with the FCI condition, how much we'll do from rice to optimize the profitability, that was the reason I was just trying to understand that a bit. Just a last bit from my end, specifically, in terms of the rice because we have already tendered, it's something which we have to do it out of obligation right in the current scenario?
- Vivek Saraogi** So, there is a penalty condition attached if you do not tender. So, we have already written that if the government has not given the rice, there should be no penalty applicable. I think that's what you are asking. So, coming back to your question, you leave it to the judgment of the management depending on the juice price, B-heavy price, sugar price, we will deliver our best on what to tender, how to tender, when to tender.
- Nikhil Gada** And sir, just one last question if I may. Is it possible in the current situation, the way the pricing is, is it possible to give the EBITDA per liter for the different routes?
- Pramod Patwari** Again, that will also depend upon the transfer price. And the breakup of that 31 crore liter of guidance given for production, juice route will be around 11 crore liter, B-heavy will be around 13 crore liter, FCI rice will be around 4 crore liter and the balance will be ENA.
- Moderator** The next question is from the line of Abhishek Leekha from Neste Wealth.
- Abhishek Leekha** Congratulations on a good set of numbers. Just wanted to have your take on, do you envisage ethanol blending also to be formalized for diesel with the government or any hearing from the government that you're planning?
- Avantika Saraogi** No, there is research on it, but too soon to comment. But there is definitely very strong research going on in it and they do have plans of 1%-2% and these things are spoken of, but it's very soon, it is too nascent.
- Vivek Saraogi** You have to first search for enough raw material to provide 20%.
- Moderator** The next question is a follow up question from the line of Prashant Biyani from Elara Securities.
- Prashant Biyani** Sir, hypothetically, if we have tendered say, for example, ethanol through juice route a certain quantity and next year, if the sugar price rise and it is lucrative to manufacture sugar and B-heavy ethanol. Can we switch some of the source from juice to B-heavy ethanol?
- Vivek Saraogi** So, if you tender, which you do tender in the month of October, you've already tendered, hence you cannot switch, unless you want to pay the penalty. So, you see that judgment, as I said, would be best left to us and we would use that with our experience and deliver the best. So, technically your question can be answered, that is it possible in the distillery to switch, the answer is yes.
- Moderator** That was the last question. I would now like to hand the conference back to the management team for closing comments.
- Pramod Patwari** Thank you very much. We hope that we have been able to answer all your questions satisfactorily. Should you need any further clarifications or would you like to know



more about the Company, please feel free to contact us. I once again thank you for taking the time to join us on this call.

This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility for such errors, although an effort has been made to ensure a high level of accuracy.

