

Dhampur Sugars Mills Limited

Q3 2020 Earnings Call

Operator

Ladies and gentlemen, good day and welcome to the Dhampur Sugar Q3 FY '20 Earnings Conference call hosted by Prabhudas Lilladher Private Limited. Before we begin I would like to mention that certain statements in the call could be forward looking in nature and are subject to risks and uncertainties which could cause actual results to differ materially from those anticipated. Such statements are based on the management's belief as well as assumptions made by information currently available to the management.

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. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Prashant Biyani from Prabhudas Lilladher. Thank you and over to you.

Mr. Prashant Biyani, Prabhudas Lilladher

Hello everyone. On behalf of Prabhudas Lilladher Private Limited, I welcome you all to Q3 FY '20 earnings call of Dhampur Sugar Mills Limited. I would thank the management of Dhampur Sugar for taking out time for today's concall. From the management's side we have Mr. Gaurav Goel, the Managing Director; Mr. Nalin Gupta, CFO; Mr. Vineet Gupta, Chief GM Finance; and Mr Akshat Kapoor, GM Finance. I would request the management to discuss about Company's results and key industry highlights for third quarter. And then we can start with Q&A. Thank you and over to you sir.

Management

Thank you. Good afternoon, ladies and gentlemen. A very warm welcome to all at Dhampur's Q3 FY '20 earnings conference call. I would like to begin by sharing my perspective on the sugar sector while discussing the company's operational performance following which we will take you through the financial highlights of the company for the Q3 FY '20.

The state advised price for sugarcane for the Sugar season 2019-20 has been kept unchanged at INR315 per quintal (General Variety) of sugarcane from last season in UP.

Overall, we are glad to report a stable performance. Sugar realization for Q3 FY '20 stood at INR 32.82 per kg as against INR 31.72 per kg in Q3 FY '19. Sugar realization for nine-month FY '20 stood at INR 32.74 per kg as against INR 30.42 per kg in the same period last year.

Sugar sales for Q3 FY '20 stood at 1.83 lakh tonnes including raw sugar sale of 0.28 lakh tonnes as against 1.76 lakh tonnes including raw sugar sale of 0.21 lakh tonnes in Q3 FY '19. Sugar sales for 9 months FY '20 stood at 5.61 lakh including raw sugar sale of 0.87 lakh as against 4.7 lakhs tonnes including raw sugar sale of 0.21 lakh tonnes in the same period last year.

In the terms of inventory, the total inventory as on 31, December 2019 stands at 3.41 lakh tonnes of Sugar valued at an average cost of INR 30.50 per kg.

The company sold 187.64 lakh Bulk litre of ethanol including 61.91 lakh BL of ethanol derived from B heavy, at an average realization of INR 44.32 per BL during the Q3 FY '20. The company during the Q3 FY '20 sold 54.56 lakhs kg of chemical at an average realization of INR56.86 per kg.

The company sold 742.45 lakhs BL of ethanol including 192.59 lakhs BL of ethanol derived from B heavy molasses in 9M FY '20 as against 470.91 lakhs BL of ethanol including 47.60 lakh BL of ethanol derived from B heavy molasses during the same period last year.

During the quarter ended 31 December, 2019 Dhampur in its power segment generated 20.45 crore units of power against 20.22 crore units in the same quarter last year and exported 10.54 crore units as against 11.33 crore units in the same quarter last year.

We would now request to Mr. Vineet Gupta to take you through the financial performance of the company. Thank you.

Vineet Gupta, Chief General Manager, Finance

Good afternoon, and thank you once again for joining us on the call. I'd now like to take you through the financial highlights of the company for the quarter ended December 2019.

Our total revenues, EBIDTA, PBT for the Q3 FY '20 stood at INR 822.15 crores, INR 92.62 crores, and INR 53.26 crores as compared to revenue of INR799.43 crores, EBITDA of INR 120.52 crores, and PBT of INR 89.01 crore in Q3 FY '19 respectively.

Our interest cost stood at INR 20.48 crore during Q3 FY '20 as compared to INR 15.02 crore in Q3 FY '19. Profit after tax stood at INR 51.02 crore in Q3 FY '20 against INR 82.05 crore in the same quarter last year.

Let me now take you through the business wise performance.

For the quarter ended December 31, 2019 sugar division reported revenues of INR 733.87 crore contributing 69.05% of the total revenues, as compared to 65.65% at INR 663.75 crore in the same quarter last year. EBIT in this segment stood at INR 27.03 crores as compared to profit of INR 19.77 crore in the corresponding quarter last year.

Revenues from ethanol chemical business for the quarter stood at INR 145.25 crores against INR 103.09 crore in the corresponding quarter last year. EBIT for Q3 FY '20 stood at INR 15.34 crore against INR35.98 crore in Q3 FY '19, decline in margin in distillery segment is due to higher input cost.

During the period under review, power revenues stood at INR144.28 crore with a profit of INR 47.85 crore as against revenue of INR 166.70 crore and profit of INR 67.19 crore in Q3 FY '19. Power realization stood at INR 3.14 per unit against INR 5.16 per unit in corresponding quarter last year.

The company has made repayment of long-term loans of INR 39.28 crore during the Q3 FY '20 and INR 132.90 crore during the period ended 31 December '19. Long-term loans as on December 31, 2019 stood at INR 577.53 crores.

These are on a broad level our financial numbers.

Now I would like to invite questions.

Operator

Thank you very much. We will now begin the question and answer session. (Operator Instructions) The first question is from the line of Suyash Kapoor from Kapoor Company. Please go ahead.

Suyash Kapoor

Hello.

Management

Yes, hi.

Suyash Kapoor

Yes, sir. Good afternoon, sir.

Management

Hi, afternoon.

Suyash Kapoor

Sir, firstly, if you could articulate that UP government policy towards the sugar industry. I mean, how things are shaping up because the sugar sector is totally the government dependent and depending upon the outcomes of the policies only the result will be fluctuating. So just an understanding, sir. Since you have already told that the sugarcane prices have been kept unchanged. Other than that any other policy changes that has been implemented would be in effect going forward, sir, with pertaining to molasses or which you would like to share, sir.

Management

Yes. So basically, apart from cane price which has been kept unchanged, the two very major differences, which have happened from last year to this year. One is on power, where the tariff as you all are aware have been brought down drastically, on which the association has gone to court, saying that the prices and the terms that they have assumed in that are not correct. So the case is as of now in the High Court. So we will wait for the next couple of months. We are hopeful to get some sort of a favorable judgment on that.

On the side of molasses, yes, again out there, they have need a change. The molasses which has to be sold to liquor manufacturers. Earlier the levy on that was 12% which has now been increased to 18%. But from the Dhampur's perspective, we all have also started manufacturing our own country liquor. So we plan to use our levy that has increased, and also the old one in to manual tools still our own CL.

So we have already started with four brands, we are now going to create two more brands in the next two months, and we plan to use all of ours levy for our own uses itself and not to sell to any third party. So these are the two major changes which have happened from last year to now.

Suyash Kapoor

Sir, you mean to say that, out of, earlier it was 12% reserved for the liquor, now it is 18%?

Management

Correct.

Suyash Kapoor

Okay, sir. And sir, one more point about ethanol manufacturing from direct sugar cane juice and we were talking to an engineering company, which sets up ethanol plant. And they were telling that, the yield can improve significantly, they were telling to 5x to 6x, it can improve if ethanol can be manufactured directly, from the sugarcane juice itself. So, what is the step on that and sir how are we going to take advantage of this policy change?

Management

So, on sugar cane juice, even we have applied for a small quantity to the OMCs, we will be making ethanol out of sugarcane juice at our Dhampur plant starting in the first week of March, and we will run that for about 20 days, that we are just doing as a trial for next year to see what are the sort of yield and what will be the net price of sugar, if we were to divert our sugarcane juice, so, the trials of that are starting in March for 20 days at Dhampur.

Suyash Kapoor

Sir, I didn't get you, sir. Come again, sir, I mean what exactly are you doing? We are getting sugarcane, we already have sugarcane juice I mean, I could not get your point, sir.

Management

Ethanol out of sugarcane juice in the month of March, we are doing a 20-day trial at our Dhampur plant, in March. Basically to understand what are the sort of yields, because as you said, we have got varies amount of news that the yield can be 600, it can be 700, and it can be 800. So that is why we are doing our own trials next month.

Suyash Kapoor

Okay, sir. So then this obligation of the levy molasses will not come into play. If we divert the entire sugarcane juice.

Management

No. Levy molasses stays, whether you do juice or B heavy or you do C, 18% of you have to give for levy, whether you do juice or not.

Suyash Kapoor

Sir, but if you go through the juice root then molasses, Out of your total production 18%, if you could clear my point out. What I am trying to make understand is In that case the molasses the in the flow chart molasses will not fall into place.

Management

So you cannot use 100% cane juice. You have to make molasses. You don't have a choice on that. You cannot sell that as you have not made any molasses because you have used total juice. So you don't have that option.

Suyash Kapoor

Okay, sir. Because this was not the view when we spoke to another management. I'm not naming them, but there are also a conglomerate having both sugar and chemicals. They told that in that case, there will be no requirement for molasses. So that was the contradictory point I was trying to get clear so. So, molasses has to be there in the system whether you go for sugarcane juice or through this process. Because in sugarcane juice, molasses are not going to arise itself in the system.

Management

Sir. My friend there is no company in India as often as on date, who has ethanol manufacturing capacity, which can use 100% juice?

Suyash Kapoor

Okay, sir.

Management

So that is not even possible. Even if I talk about my one unit at Dhampur, if I want to use 100% cane juice my distillery capacity has to be about 1400 KLPD, which as on date is 215.

Right, sir. So this liquor business vertical is going to thrive, as being articulated over the years. The support which the government is providing to the liquor manufacture that is going to stay. That is the short point.

Management

Yes, it will.

Suyash Kapoor

Sir, now coming to the molasses in the chemical segments, sir. We write chemical slash ethanol. So what does the chemical constitute, is it the molasses sales only that comes under chemical or what is it?

Management

No, we also manufacture Ethyl acetate as a chemical, so that is why.

Suyash Kapoor

Okay, any mix, sir, if we can take out of the INR145 crores revenue for the quarter?

Management

Yes. So, our chemical sale will be approximately about INR30 odd crores and balances is all through the OMCs.

Suyash Kapoor

Didn't get you sir. Come again.

Management

INR30 crores is our chemical sales out of the INR145 crore.

Suyash Kapoor

Okay. Okay and sir, what should be the reasons that our last year in December, we posted chemical ethanol segment sales of INR103 crores, and the profitability was significantly higher at INR36 crores. This time although, the revenue is up from INR145 crores. The profitability is down to INR15 crore?

Management

No. So that is what we also said in the opening of remark that the input cost which is the cost of molasses last year at this point of time was INR200 per ton, which as on date is INR4,000 per ton.

The cost of molasses.

Management

Yes.

Suyash Kapoor

Okay. And the levy price. What is the difference between the levy price and the market price?

Management

So the levy price is about INR1250 per ton.

Suyash Kapoor

And last year it was how much, sir?

Management

Last year was INR750.

Suyash Kapoor

Okay. From INR750 to INR1250 is what the liquor manufacturer as to say.

Management

Yes.

Suyash Kapoor

Okay. And they have improved quantity, because of the percentage increases to 50%.

Management

Yes, from 12% to 18%, yes.

Suyash Kapoor

Sir, I will come in the queue, sir, couple of questions are there, but other people are waiting. Thank you, sir for all the candid explanation.

Management

Thank you.

Operator

The next question is from the line of Sanjay Maniyal from ICICI Direct. Please go ahead.

Sanjay Maniyal

Hello, sir.

Management

Hi, afternoon.

Sanjay Manyal

Hi. Just few question, what our like-to-like recoveries say from the C heavy molasses, is it improve this season?

Management

Are you talking about sugar or B heavy?

Sanjay Maniyal

No, sir. If I exclude the B heavy, have the recovery rate improve this season or are they down this season?

Management

So as of now, the output Dhampur as a group for the almost same deal, it is higher than last year. What happened was that in the starting we were higher by about 0.2% to 0.25%, but for the last about six weeks they've been very heavy rainfall in Western part of UP. So that basically has brought it down, but we are hoping that now with the weather clearing up, we should again start to go up in the month of February and March. So, right now we are 0.08% higher than last year.

Sanjay Manyal

Okay. And so, what I have understand that we can have contract for large B heavy ethanol with the OMCs. So, but if I just see the number of ethanol, the nine months number for ethanol, this three segments basically, you have done somewhere around INR7 crores litres as if I'm not wrong.

Management

Yes.

Sanjay Manyal

And but our capacities are somewhere around 12 crores litres to 13 crore litres, if I calculate 400 to 328 days. So will we be able to do that number or what's the reason for this lower number?

Management

Yes. So, basically the sales to OMCs are lower because of this levy. So, now we have to manufacture ENA

also as we earlier sold ENA to liquor manufacturers. And also we will doing our own country liquor now, so that is why we want to use all of our molasses. So that is why the supplies to OMC's became lower.

Sanjay Manyal

Okay. So if I include the liquor part because I don't have the operational number of liquor. So we'll putting together, will that number be somewhere around INR12 crores.

Management

Yes. If you target for the whole year, we want to do at least INR11.5 crores.

Sanjay Manyal

And how are the realization sale for the country liquor. So is it equivalent to C heavy ethanol or better than that?

Management

No, it is slightly lower. So the C heavy Ethanol, be the prices INR43.8, on country liquor we will get an average price of about anything from INR30, INR36 to INR38 seeing on ENA but out there because our volumes as of now are lower and we plan to increase the volume over the next three to six months. Then we should get about INR36 to INR38 value for ENA.

Sanjay Manyal

Okay. Okay. Sir, one thing on the inventory perspective, what I understand your inventory by the end of December is somewhere around 3.4 lakh tons and though it is increase on a year-on-year basis. So despite you're doing the good amount of B heavy, will the inventory levels look down year-on-year basis?

Management

I don't see them to be down. I see them to be up but there will be marginally up if we'll see the average of India, then vis-a-vis we will have far from lower, because of our B heavy and because of our exports. We have also applied for further exports, so we are waiting in the next about 10 days. We should get some more quantity for export. But, overall if we see India's average, our increase will be far lower.

Sanjay Manyal

Okay. So just from the production perspective only FY '19 was 8 lakh tons in terms of production. Now we are doing B heavy this season. So despite the sacrifice, you think that our production figure will be up this year?

Management

No. We believe it should be almost same as last year, because even last year we had done B heavy item at Dhampur plant, only this year we are doing it in three of our plants. This year we have slightly higher cane crush, we believe that we should make almost the same amount of sugar or slightly lower than last year.

Sanjay Manyal

Okay. So, this comes to one specific question that what we basically, understand the UP, entire UP is a state will be producing more or less same sugar as last year. But most of the bigger mill, probably will be producing higher numbers, sir. Is it that smaller mills, sugar cane is been sort of transfer to the

bigger mills, and because you have the financial strength and you have the decent cash flows, you probably are buying a higher sugar cane compared to last year.

Management

So, I don't think that is correct. Basically most of the larger groups are doing more of B heavy this year vis-a-vis last year. So that is why there number you may see of total cane to total sugar with that they will make to be the same to be slightly lower. Because last year only a very, very few had done B heavy. This year a lot of the large groups have gone to B heavy. So that much of sugar has got diverted. But there is no diversion of cane as such from the smaller mills to the bigger mills that is not correct.

Sanjay Manyal

Okay. Sir, from last two months, we are getting somewhere around 60,000 tons of quota, specifically if I'm not wrong, Jan and Feb. So will this probably is a bit higher than previous quarter, will this trend should continue till say September means we should be getting a higher quota because Maharashtra and Karnataka is producing lower number this season.

Management

Correct. You are totally right on that.

Sanjay Manyal

Okay. And do you see prices than moving up, because Maharashtra probably will halt production by month end.

Management

This question has been asked to me even earlier by a few. I'm not expecting sugar prices to move up, because there is no logic for prices to go up because India has a lot of stock even as on date, even if we assume that this year India, will only produce 26 million or 26.5 million tons, but we had an opening stock of 14.5 million tons. So, the sugar prices should go up, see INR 1 or 2, INR 1 during the summer months it always goes up. But I'm not expecting prices to be INR 35 or 36.

Sanjay Manyal

Okay. Okay. Perfect, sir. And we have exported our entire quota, physically exported our entire quota say in January.

Management

No. We have done a total contracts, our total quota was 1.55 lakh tons that hold up the contract has been done, and our contracts are till April, so April is our last shipment, so that's why exports are happening every month. So by April, our total exports will be done.

Sanjay Manyal

And majority will be done say in Q4?

Management

Yes, by March.

Sanjay Manyal

Okay. Thank you. Thank you very much, sir.

Management

Thank you so much.

Operator

Thank you. The next question is from the line of Sridhar from Ikrea. Please go ahead.

Sridhar Parthasarathy

Yes. Good afternoon. I have couple of questions. So, this year we've done about INR0.28 lakh tons of exports and the overall understanding of INR1.5 lac. So, why this much and when are we expected to kind of complete, and this is question number one?

Management

Yes.

Sridhar Parthasarathy

Question number two is C heavy and B heavy. What is the transfer price for the Molasses? Where do we see our inventory? Because you're still talking about 3.4 lakh which is lastly about to close to 900,000 crores, our inventory which is still there. So, when do we expect given the fact that overall reduction is happening? We see a reduction in inventory. Thank you.

Management

Thank you. So I will go by your first question. So our total exports are 1.55 lakh tons, in this quarter. We have done 25,000 tons out of that we will be doing approximately 75,000 tons, about 80,000 tons more from Jan to March and the balance 40,000 tons, we will do in April. So that is on the export side. Our transfer pricing for C Heavy is INR491 per quintal, and on B heavy it is INR800 per quintal.

Sridhar Parthasarathy

One thing I want to understand the power because of the drop in rain we had an impact now, we just close to over INR20 crores. But otherwise, sugar overall production has increased, and I thought somewhere you get compensated for sugar plus say, ethanol if you really look at weather again, it has stopped. Do we see any improvement or is it going to be this way.

Management

See I personally feel that all the profits as of now are stuck in stock. So as soon as we start the sales, sugar inventory for surely by the year end will be lower than last year. Because as we know that India's overall stock is expected to come down.

So same way even our stock will be lower than last year, but in March, it won't be as much different, but for surely is going forward in Q1, Q2 of FY '21 there we believe our stocks to come down.

Sridhar Parthasarathy

Really look at it, what we're talking about is of 14 lakh ton opening inventory. We're talking about close to 8 to 9 million ton inventory. So we're talking about almost close to 30% reduction in the inventory

level in the country, right. Do we see a similar reduction because there is all cash just getting stuck. Absolutely. The profit is also getting stuck in.

Management

See, as I said, you will start seeing it from Q1 of next year. Our mills will all shut by May. That is when you see overall inventory for Dhampur will be coming down, because maximum sale as what we were expecting or the quotas, will be higher for UP, because UP has a maximum amount of sugar. So our total overall stock will be lower, now whether India's closing stock at the end of FY '20 will be 8, 9 or 10 that is anyone's guess right now. But yes, that much of inventory even for us will come down.

Sridhar Parthasarathy

Because we look at that is a substantial reduction, right? Like what it could be anyone they've between 8 to 10? But still compared to 14, we are talking about close to 30% to 35% reduction in inventory. That's all we're talking about INR300 crores cash being released and that also has an impact on profitability. So, this is something we have been kind of continuously keep on watching as to what level.

So you're saying because you people make more, they will continue to get more release quota, because the issues you should not be the case where Maharashtra is still getting its quotas or therefore you are stuck with inventory while Maharashtra reduces annuity.

Management

I don't think so. I mean we are doing it very professionally the quotas are being taken out, where they also see how much of sugar you have produced, and how much stocks you have, and how much of B heavy that you are doing. So that is why, I do believe that the quotas for UP will be higher month-on-month.

Sridhar Parthasarathy

Okay. So but effectively you're saying, it will be some light by possibly Q1 of next year?

Management

Yes. Q1, Q2.

Sridhar Parthasarathy

And one other point, sir, in the given fact that global prices are more surprisingly is strong right, three last quarter to the quarter rehabilitation almost 25% increase in the global prices. Now, you guys can actually take a hedge or you can take position based on your stock or you don't do anything.

Management

No, you will only export if you get the subsidy from the government because even at the price that we have right now let's say \$14.8 the X mill price of that comes to only about INR22. So that is why without the 10 bucks from government. You will not export more than your quota.

Sridhar Parthasarathy

Yes.

Management

So that is why you don't hedge, so that is why Indian mills don't hedge on because they are not going to export.

Sridhar Parthasarathy

So, your outlook on sugar prices is possibly at the same energy as global.

Management

See again, the prices are hovering in the range of INR32.5 to INR33. I am saying at maximum they can go up to INR33.5 to INR34, but I don't see anything higher than that.

Sridhar Parthasarathy

And there were always representation being made on the increasing sugar price also given the fact that the procurement is happening at a certain price. There were also this representation to increase the sugar price also raised, their minimum support price kind of a thing. Anything happening on that, sir?

Management

I don't think there is any talk as on dates to increase the MSP of sugar.

Sridhar Parthasarathy

Because some time back there were some notes or whatever the news items which just talked about how the production of sugar is resulting in a certain price and therefore why it should be higher at and can it be a INR 35.

Management

See again out here, we have to be slightly practical on this, because higher the Indian sugar price that will become the difference of the parity with exports will go on going up. As on date it is very important for India to export the full 6 million tons. And if Indian prices go up very, very high, vis-a-vis global up prices then exports won't happen.

And then you again saddle up to stock, so we have to always take that vary in concall as to what should be the India price and what should be the global and what should be our export price. So that's why I mean that MSP is fine, right now, that is my personal view then is up to the government if they want to hike it up even more, but the most important thing is for India to export sugar and to bring down our total stock of India.

Sridhar Parthasarathy

Okay. Thank you. Thank you so much, and thanks for appreciation. Thank you.

Operator

Thank you. The next question is from the line of Levin Shah from Value quest. Please go ahead.

Levin Shah

Yes, thanks for the opportunity. Sir, my first question is have we contacted our entire exports quantity? The price we have logged in the price, for the entire export content?
Yes we have.

Levin Shah

Okay, so, now from here on what government is contemplating is giving the additional quota to the mills well either contacted their entire quantity. So, what kind of additional quota are you expecting that we might get from that?

Management

No, it's very, very tough to say right now because what we have asked the government to do, one is that they ask for information that who have exported and how much have you done your contract for but a lot of the mills have not sent their answers. So what we have asked them to do is that those who have not send their answer they must assume that they all are not doing exports. And that much of quantity they must then divide among the companies who have done the exports and want to do more export. So that's why it's very tough at this point in time to say what is extra over turn?

Levin Shah

Okay.

Management

So it is very tough to say right now.

Levin Shah

But sir, at the current prices that you have mentioned within next 10 days, maybe the government will come out with that list. And at the current international prices will be readily so happy to take more quotas? I mean additionally.

Management

Absolutely, we have already written that we would like to get as much as we stack. I am more than happy to export as much as we will get.

Levin Shah

Okay. Got it. Sir and if you were to look at our nine months number, I mean combine both sugar and distillery the profitability is down. So I understand that because of the molasses prices there would be transfer pricing, there is some rate in the profitability in the distillery, but if you look at the combined numbers of both the segment's, there still we find that there is a drop into the profitability.

Management

Yes. So that is basically due to the high stock. So, as of now all the profit of sugar is stuck in stocks, so only when these stocks will get sold you will see that coming into the P&L that is only reason why you are not seeing them both matching right now because of the higher stock that we are holding.

Levin Shah

Okay. So does that mean the production cost is divided over the quantity produced and we are not able to sell everything that is why our cost is higher?

Management

Our cost is lower than the actual selling price. And that is the reason that much of money is stuck in stocks.

Levin Shah

Okay, right. And sir, what is our cost of production currently?

Management

Through our stock valuation as on 31st December value is INR30.5.

Levin Shah

Okay. Sir and one more thing on this country liquor, what is the kind of market or the opportunity in UP that we are looking to target and what kind of market share will be targeting? And even if you can do some light on the overall profitability of the country liquor, where does it stand? And what are our targets for those?

Management

So on CL, we want to use it totally for country liquor. Our target as on date is to sell approximately 3 lakh cases per month of CL. As on date, we are doing about 50,000 which we plan to increase to 1 lakh by April, because here country liquor is a brand game. Apart from it being a mass market, but out here it is again a brand.

So that is why we have to develop four of our brands, which has been now selling for the last about three months in the market, it has been well absorbed, but it will just take time for us to increase our total sales volume, but we want to reach 3 lakh cases by June of 2020.

Levin Shah

Okay. And that would be the kind of market share? So how big would be the market?

Management

So the total market is about 48 lakh cases per month which is the average of UP, so that we want the sale to be 3 lakhs.

Levin Shah

Ok. So we are targeting somewhere around 6%, 7% market share?

Management

Yes.

Levin Shah

Sir, and in terms of profitability how profitable would be the country liquor business?

Management

If, I had to sell our C-heavy molasses in market then we'll have to sell at INR125 per liquor. While if we make country liquor the molasses price that I will be able to get for myself will be almost INR450 rupees. You have to see it from that angle.

Levin Shah

Right. So it will be safe to assume that with this molasses pricing we will be able to make 20% to 25% margin into the country liquor business.

Management

Well then take the price of INR125 or you take the price of INR450. If I have the molasses that I will be transferring from sugar to there for levy it will be priced at INR125 so the margins will be close about INR35 to INR40 which is the margin on country liquor.

Levin Shah

Okay. INR35 and this will be excluding all the other distribution and marketing expenses.

Management

Yes.

Levin Shah

Ok, thank you sir and all the best.

Management

Thank you.

Operator

Thank you. The next question is from the line of Ashok Patel from India SME Investment. Please go ahead.

Ashok Patel

Good afternoon sir. My first question is regarding sugar segment, what could be our EBITDA breakeven cost for sugar per unit?

Management

Cost for sugar per unit is INR30.11.

Ashok Patel

INR30.11. Okay. And sir what is the current situation of cane areas in India.

Management

Excuse me.

Ashok Patel

Sugar areas current situation. What are the sugar areas in India?

Management

You mean the cane areas?

Ashok Patel

Yes.

Management

So the cane areas as on UP when I saw last was about 6,500.

Ashok Patel

For UP right?

Management

Yes, for UP I don't have the all India numbers. UP is 6500.

Ashok Patel

Okay. And sir, do you feel the MSP would be applied for the next marketing year as well?

Management

Yes, I am not seeing any reason for MSP to be taken out. MSP has been well established, it has done very, very well, government is also very happy because of that is the only reason why you have seen cane price areas have coming down. If MSP wasn't there the cane price areas would have been huge right now.

Ashok Patel

I agree. So the MSPs could basically provide the floor price to the sugar segment. And it could be slightly may be structural change of the cycle.

Management

True. Very true.

Ashok Patel

Okay sir, are you expecting the increase in export quota as per recent reports, the global deficit of targets are increased from 6 million ton to 11 million tons. So there is a strong place for us to fulfil?

Management

Totally, so that is why as I said earlier also is that we all would love to do more exports. We have already written to government saying that in case they want to give us extra quota, we are more than happy to take that.

Ashok Patel

Fair enough. But even after the government subsidizing those our export rate would be marginally lower than the current market rate. Right?

Management

Yes, again, even if you see the current market rate, even if it is lower by INR1 or INR2, that much you will save by way of cost of interest.

Ashok Patel

Yes, exactly, I agree. And sir regarding ethanol distillery segment. I wanted to understand that with current capacity of 400 KLPD at full capacity how much ethanol can we manufacture?

Management

So again, as I said that we have to keep now one-fifth of our produce, we have to keep aside for ENA/Country Liquor. So, if you have seen that we can make about 12 crore litres to 12.5 assuming 300 days. So, 12 crore is our capacity that we can make and the ethanol contracts that we have done as of now are 7.7 Crore litres and we may apply for about 80 lakhs more.

Ashok Patel

Okay. So I wanted to understand how much sugar manufacturing is sacrificed? So when we are able to meet the targets of 6% lending rate. So how much actual sugar are we sacrificing to achieve those targets?

Management

Are you talking about B heavy right?

Ashok Patel

Yes.

Management

So on B heavy I said that we are doing it from three of our plants, so our total sugar sacrifice that we are seeing for ourselves will be about approximately 7 lakh quintals of sugar that what we sacrifice for B heavy.

Ashok Patel

Okay. And sir, what is the rough duration to set up a distillery and crushing capacity.

Management

Excuse me.

Ashok Patel

Rough duration to setup a distillery and crushing capacity?

Management

You should assume it to be about 18 months.

Ashok Patel

18 months. Okay, and one more thing that I wanted to understand. So we expanded our capacity by a 100 KLPD we say around INR60 Crores cost, so at the same time Dhampur expanded 100 KLPD at INR145 Crores cost. So what could be the reason that there is difference of almost double 100%?

Management

Yes, the difference is on the power plant. So basically we already had the boilers and turbine, hence we have to now put a spin borsch fired boilers. So we already had them at Dhampur, so that is why in that we didn't have to spend any money.

Ashok Patel

Okay, sir. So roughly what benchmark should be taken for distillery Capex costs, for example, 100 KLPD?

Management

Cost about INR130 to INR150.

Ashok Patel

So that would be including the boilers and turbines everything.

Management

Correct.

Ashok Patel

Okay. Okay. And sir, as government is focusing more and more on Ethanol blending and is giving aggressive targets. So, do you see like bunch of other manufacturers planning Greenfield capacity who are not into sugar manufacturing yet. But they'll buy molasses from market and then they'll make ethanol and then, we'll sell, is it possible?

Management

It is very, very tough because to source such a larger quantity. So, I frankly do not expect anyone to put up a green field without a sugar mill. The expansion which can come is on grain based. So, now they've also allowed Ethanol to be made from grain. So on that they can be some players who can come in but not out of sugar.

Ashok Patel

Ethanol made from? What you said?

Management

Grains, food grains.

Ashok Patel

Grains. Okay sir. That's all for my side, thank you for the lucid explanation.

Operator

Thank you. (Operator Instructions) The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor

Yes sir, thank you for the opportunity. Sir if we take the difference between B heavy molasses and the C, what is the price difference?

Management

So the C price is INR43.8 per litre, and B heavy price is INR54 per litre.

Saket Kapoor

B heavy is INR54 per litre, but it is from C that sugar cannot be made.

Management

Yes, so C is the last. And B, you leave more sugar in that.

Saket Kapoor

Right, sir. Sir, you were talking about the liquor part. Currently in the other segments are we doing any liquor business as of now or it is the first foray as we are contemplating?

Management

No, so we have done even in the last quarter, in terms of volume was likely lower. Now the volume will start to go up starting from Q4 and then Q1 and Q2 of next year.

Operator

But for any follow-up, I request you to re-join the queue, please. The next question is from the line of Puneet Sarav an Individual Investor. Please go ahead.

Puneet Sarav

Hello.

Management

Yes, Puneet ji.

Puneet Sarav

Yes, good afternoon, sir.

Management

Very, very good afternoon.

Puneet Sarav

Sir, you were stressing for the provisions of partial sugarcane juice converter into sugar in Q4 last year. At even Q1 of this financial year, Gerber alluded to a great part about approximately INR60 per litre, but we are still only doing B heavy molasses, Can you just share some of your thoughts about it?

Management

Yes. So as I said earlier in next month, we are doing trials for 20 days at our Dhampur plant with sugarcane juice, basically to see what sort of yields we get out of that. Then once we know what is the exact data on that and what will be the price of sugar that we can get out of that then next year, we will take a call as to whether we do how much from sugar cane juice and how much from B heavy.

Puneet Sarav

Right.

Management

So we are agreeing our trials next month for 20 days.

Puneet Sarav

Right. So on diversion or like around four to five litres of sugar into ethanol. We did both conversion through sugarcane juice into ethanol. The subject of discussions with a Gerber to push more sugarcane juice conversion into ethanol. How to begin the financially bad things from the company point of view?

Management

So, we need to increase our capacity as on date in India. We can do more B heavy and we can do cane juice but we don't have inherent capacity as on date. So till the time the capacities won't go up. The amount of B heavy or sugar cane juice will always be limited.

Puneet Sarav

Right. That's all from my side, sir. Thank you.

Management

Thank you.

Operator

Thank you. The next question is from the line of Rahul Sanghvi, an Individual Investor. Please go ahead.

Rahul Sanghvi

Yes, thank you. So my question is about the recent developments in the budget. So, the government has come up with this. I mean remove these PDT. So what's your overall take on that and what would be a strategy going forward, I mean, because given that next year you will be generating strong cash flows. So I mean physical to understand that you will be increasing dividend by at least 20%, or maybe is there any other plans, do you have in your mind like Capex or anything else, if you can share.

Management

No, we'll have no major Capex plans this year, they will only be to balance out our factories, so no major Capex plan on the side of dividend or buy-back. I mean it is very, very early days to say as to what the board will think and finalize. But yes, all the options are open as on date. DVT is out so that much of extra cash is with company, so whether we give it out as dividends or we hold it as reserves. I really cannot comment as on date I will leave that to our board to finalize.

Rahul Sanghvi

Okay. And see recently, what is the export quantity your sign for? So, can you share the price? What is the overall quantity and at what price you have signed the export contracts?

Management

Yes, so average for the whole export that we have done, we get approximately with the INR10.45 from government. We get approximately INR30.5 per kg on raw sugar.

Rahul Sanghvi

Okay, sir. Thank you.

Management

Thank you.

Operator

Thank you. The next question is from the line of Marda from Fidelity. Please go ahead.

Madhav Marda

Hi sir, good afternoon, sir. My question is a little bit more longer term. I will sitting a couple of articles last two, three weeks so this said Maharashtra production could double in the next year given that water availability is so good. I know it's very early days, but just your sense on how it could proceed going into the next season with rich availability of water here in the reservoir.

Management

Yes, for surely the availability of water in the western part of India has gone up, people are speaking about an increase. But again, as you said very rightly, very, very early days. So that is why we are keeping ourselves fully in the option of doing sugarcane juice, B heavy and exports. That is the only way that as Dhampur we will be able to control the amount of inventory that we hold. At the end of FY '21, but still early days as to how much India will do next year.

Madhav Marda

Got it, and just on the diversion of the sugar cane stick into ethanol. How much could we do in FY '21 as a country, any broad indication as to how much could get diverted the excess inventory system?

Management

See, I mean if you see last year we had done approximately 4.5 lakhs tons of sugar was diverted, this year the quantity has gone up to about 1.5 million tons.

Madhav Marda

Okay.

Management

I believe that the Western and Southern part of India, didn't at all come out with B heavy this year, but in case sugar cane goes up this can go up next to at about 2.5 million ton.

Madhav Marda

Okay. And then do we have enough distillery capacity for that diversion to sort of go up more in the next year or the new capacities to announce the government policy is hitting a peak now.

Management

Yes, again the capacities which are coming up and which we have maximum that I'm seeing as on dates that can go up to with present and whatsoever are the future expansions of Greenfields of being set up. I don't see the capacity to be more than 3 million tons, as of now.

Madhav Marda

So 3 million tons can be diverted as of now basically into ethanol?

Management

Yes.

Madhav Marda

Okay. Great, sir. Thank you.

Operator

Thank you, Next question is from Anurag Goyal from Ampersand Capital. Please go ahead.

Anurag Goyal

Hello.

Management

Yes, hi.

Anurag Goyal

Sir just I missed this part. What is your latest estimate of sugar production for the country this year?

Management

About 26 million to 26.5 million tons.

Anurag Goyal

Okay. So because till end of January already 14 million ton done and the month of January itself was of 6 million ton. So, season production is going to extend till middle of April or not.

Management

Yes, but see that is only for North India. If we see South and West. The plants will start to shut from next month like in the next two to three weeks you will see plants are closing down which was running last year until April. So it is only in North India where we will run till April end and a few plants will also go into May. But that isn't true for the whole of India.

Anurag Goyal

And do you think we will be able to meet or exceed our exports target?

Management

See, again. The 6 million ton target can only be met if the exports is given to the mills who want to export because we know in the last year, out of the 5 million ton export target only 3.8 was done.

Anurag Goyal

Yes

Management

So Mills who had quotas of 1.2 had not exported. If we see the same rationale, we all would like further exposed to go to Mills, who want to export more and that is the only way that we will be able to meet the 6 million ton target.

Anurag Goyal

Understood. Thanks a lot, sir. Thank you.

Operator

Thank you. The next question is from the line of Keshav Lahoti from Angel Broking. Please go ahead.

Keshav Lahoti

Congrats, sir on the great set of numbers. Just to repeat question as the earlier participant asked the

question when I look at the combined profit of sugar and ethanol for the nine months compared to last year. This year profit is down, you gave an explanation but I am still not able to understand it, can you please explain it again?

Management

It is basically because of the higher sugar stock that we are holding that much of profit would have come has gone into the stocks. So if we see that our stocks are higher from 2.9 lakh tons, it is now 3.4 Lakh tons.

Keshav Lahoti

Okay. Do you buy a molasses from outside market or is it fully internally?

Management

So up till last year we will have bought from outside but this year our plan is that we have done B heavy in three of our plant, then this year we don't have to buy anything from outside or even if we have to buy will be a very small quantum. So that is why we all did B heavy in three of our plants vis-a-vis last year we had only done it in one plant, so we are hoping not to buy anything from outside.

Keshav Lahoti

Okay, one last question. As we can see in your power segment this time you have done a profitability of INR48 crores, when I see the last quarter, it was kind of INR5 crores loss and the government has reduced the power rates from INR5 to INR3, was that made you to make such a good profit in this quarter.

Management

No, see. If you see the last quarter, there is no real export which happens, it is very small amount of export. If you see 31st Dec 2018, our profit on the power side was INR67 Crores, which has come down to INR47.8 crore. That is only due to the price drop, so our INR20 Crore profit came down because of the lower price.

Keshav Lahoti

Okay, thank you. That's it.

Management

Thank you.

Operator

Thank you. The next question is from the line of Levin Shah from Value quest Investment. Please go ahead.

Levin Shah

Yes, thanks for the opportunity again, sir. So this exports realization that you mention about INR30.5, this is excluding the transportation cost. Right?

Management

Yes.

Levin Shah

And what is the actual transportation costs that we might have incurred?

Management

It varies from about INR180 to INR120.

Levin Shah

Per quintal?

Management

Yes.

Levin Shah

Right. Sir and like you said that we would be wanting to use our levy quota completely in-house for country liquor. So in terms of our overall capacity we stand at 12 crore litres roughly and our 18% levy's would be around INR2.16, so balanced INR9.84 is what we are targeting for Ethanol sales?

Management

No, we also have some balance levy creation of last year that is also about 1.2 Crores litres. So if we take our total OMC, what we are doing a target is of about 8.5 Crores.

Levin Shah

Okay, got it. And sir, if you were to look at the overall requirement in terms of blending target that the government has kept for itself. And if you look at the industry capacity, there is a big short fall. But at the same time as this first round of expansion, we are not seeing a lot of mills going ahead and putting our additional capacities or expanding distillery capacities, so what according to you is the key hindrance over here.

Management

These are maximum capacity that should be coming up is in Western and Southern part of India. I think issues of cash flow that they aren't being able to expand their plants. So they are the ones who should be putting up model Greenfield or expanding their present plans. So in that side of India, expansion isn't happening while in North India, I think we have already reached almost too close to our capacity. So, till the time we all don't see improvement in their cash flow and in cane, this capacity of blending can't be increased.

Levin Shah

Okay. So like you said in the northern part is that whatever crushing capacity we have currently. Completely that is been booked for distillery capacity. So there is no more scope for putting up additional distillery?

Management

Marginal scoping. Now the scope will come in case we do more of B heavy and sugarcane juice then we again have the raw material availability for further expansion or for Greenfield. But currently if we just see that North India is almost done.

Levin Shah

Okay, right. So then one last thing on this Maharashtra situation, if we were to look over all their production right now is down 50%, and there are talks that they might end the season by this month. And so according to you, is it possible that whatever estimates are that of 5 million - 5.5 million tons they might end below that as well.

Management

No, we are not seeing to be lower than that. That is why, I gave a range of 26 to 26.5. So that 5 lakhs tonnes may go here or there but that's extremely hard to judge right now. The Sugar Mill starts to close down, they can also be a period where they run for about eight days at a lower crush. So, that's why it's very hard to judge right now as to exactly how much they will do. But 26 or 26.5 looks to be what India will make.

Levin Shah

Okay. Thank you, sir. And all the best.

Management

Thank you

Operator

Thank you. The next question is from the line of Saket Kapoor from Kapoor Company, please go ahead.

Saket Kapoor

Hello. Thank you for the opportunities. We are thank you for different dividend payouts, have we coated any policy going forward where investor can know what sort of dividend can we expect sir?

Management

The board has not made any policy because sugar is very cyclical that is why the board in their wisdom said that we should not put any sort of number on that because things change very, very fast in sugar.

Saket Kapoor

Okay. Currently there's a Morgan Stanley conducted a conference call only on Ethanol and Edge policies in India. So are we also cover looking for any hosting?

Management

So we have not thought about it, but we for surely can think about it.

Saket Kapoor

We can also get some insight if we participate to it. Okay, the last point about this liquor part that 48 Lakh cases is what you said is the market currently, and we're eyeing 6% of that sir.

Management

We are eyeing about 3 lakh lack of cases post June.

Saket Kapoor

Post June. Sir currently who are the dominant players in this segment.

Management

No, in this segment there are no sugar manufacturer. They are all independent guys.

Saket Kapoor

Radico and sir?

Management

Yes,

Saket Kapoor

India Glycols is there.

Management

Yes.

Saket Kapoor

These are the two major players.

Management

And there are about five, six and others who are not listed.

Saket Kapoor

I think, sir, but is it only levy gain that is contemplating you to move into this segment sir, other people are also expanding their contrary to this Radico is moving its feedstock from molasses to other things. So from their side the demand of molasses might fall as being set by the management so I am not wrong? So said, is this on the levy part that is giving you the juice to go in the segment?

Management

Yes.

Saket Kapoor

Correct, Sir thank you so much for all the answers.

Operator

Thank you. Ladies and gentlemen due to time constraint. That was the last question. I now hand the conference over the management for closing comments.

Management

Thank you. On behalf of Dhampur, we would like to thank all of you for taking out your time to be on this call. If you have any further questions, please feel free to contact us either by phone or by email and we will get back to you as soon as we can. Thank you again everyone.

Operator

Thank you, ladies and gentlemen on behalf of Prabudas Lilladher Private Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines.