



# Dhampur Sugar Mills Limited

## Q1 FY13 Earnings Conference Call Transcript

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**Moderator:** Ladies and gentlemen good day and welcome to the Dhampur Sugar Mills Limited conference call. As a reminder for the duration of the conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Ishan Selarka of CDR India. Thank you and over to you sir.

**Ishan Selarka:** Thanks Inba. Good afternoon and welcome to the Dhampur Sugar Mills Limited's Q1 FY13 earning conference call. Today we have with us Mr. Gaurav Goel, Managing Director, Mr. Arhant Jain – Executive President Finance and Mr. Sandeep Sharma – Executive President from the Company. We will commence this call with opening remarks from the management following which we will have an interactive question and answer session.

Before we begin you may want to know that some of the statements made or discussed in this conference call may be forward looking in nature and a note to that effect was stated in the results presentation and conference call invite sent to you earlier. I would now like to invite Mr. Gaurav Goel to share with us his perspective with regards to the Company's performance during the quarter ended June 30<sup>th</sup>, 2012 and the opportunities going forward. Over to you sir.

**Gaurav Goel:** Good afternoon and a very warm welcome to all at Dhampur Q1 FY13 earnings call. I would like to begin by sharing my perspective from the sugar sector while talking about the operational and financial highlights of the Company for the first quarter ended 30<sup>th</sup> June, 2012.

India has produced 26.2 million ton vis-à-vis 24.5 million tons in the previous year. Out of this, the production in the state of UP was at a record high of 7 million tons which is an increase of 18% over the last year, which was driven mainly by improved cane acreage. For this coming season, early estimate are that cane production in India would be lower at 25 million tons while sugar production in Uttar Pradesh is expected to increase from 7 million tons to 8 million tons on the back of improved cane acreage which was there because of high cane prices. On the other hand, production in western and southern parts of India is expected to decline because of deficient rainfall in the key cane growing areas. While the monsoon has not

impacted Uttar Pradesh so far, further clarity on overall sugar production will be available closer to beginning of the next season. The domestic sugar consumption stands between 22 and 23 million tons hence we expect the next season to be more balanced in terms of demand and supply.

On the sugar prices, we are as of now seeing an upward trend and currently reeling at Rs. 34 per kg ex-mill. Further as mentioned in earlier conference call the government has appointed a committee to look at the decontrol of the sugar sector. The committee is in an advanced stage of either bringing down levy or withdrawing the levy quota which I believe will benefit the sugar sector.

To give you an overview of the operational performance at Dhampur, for the current sugar season we have crushed nearly 37 lakh tons of cane compared to 33 lakh tons in the sugar season of last year. Higher cane crushing has helped us to improve volumes across all our business segments. Further, recoveries for the current season stood at 9.22%. Sugar production for the current season was at 36.4 lakh tons. Higher sugar production and increase in capacity utilization has not only enabled us to increase value in the sugar size but it also has a positive impact on our power and chemical business. Our landed cost for cane in sugar season 2011-12 was 251 per quintal. Sugar realization has improved to Rs. 30.54 per kg in the current quarter compared to Rs. 28.68 last year.

Our power and chemical business has continued to augment our performance driven by higher volumes and realizations thereby mitigating the challenges faced in the sugar segment and have substantiated the fact of us having built a strong and integrated business model.

During the quarter ended 30<sup>th</sup> June, 2012, Dhampur in its power side generated 7.58 crore units of power and exported 5.63 crore units. The average realization for this quarter stood at Rs. 4.25 per unit. We believe that higher cane crushing in the coming season and power export opportunity should enable us to run our power plant for a higher number of days in the off season due to higher availability of bagasse which will have a positive impact on our power business.

Our chemical and ethanol division delivered a robust performance as a result of improvement in production and sales volume at higher prices. The Company during the quarter sold 119.8 lakh kgs of chemicals at an average price of Rs. 51.3 per kg. The Company also sold 93.5 lakh bulk liters of rectified spirit and ethanol at Rs. 27.75 per kg. The Company in this business continues to utilize its swing capabilities to produce and sell chemicals, rectified spirit or ethanol that offers better margin.

During the June quarter, the Board of Directors at Dhampur have approved the merger of JK Sugar with Dhampur. JK Sugar is an erstwhile division of J K Tyres. The Company currently has an aggregate cane crushing capacity of 5,000 TCD and power capacity of 19 MW. The merger of JK Sugar will augment our capacity and presence in the sugarcane rich western belt of U.P. and strengthen our position as a highly integrated and cost efficient player in the sugar sector in the country with an aggregate sugarcane crush capacity of 44,500 TCD, 1,700 tons of sugar refineries. Dhampur in its alcohol division has a total capacity

of 270 KLPD. To give you details of this transaction, this is a no cash deal. On completion of the merger, the shareholders of JK Sugar will get 275 equity shares of Dhampur of face value of Rs. 10 each fully paid up for every 1,000 shares held in JK Sugar of face value of Rs. 10 each fully paid up. The transaction is subject to sanctions from statutory authorities and shareholders as maybe required by both the companies. The transaction will have an effective date of 1<sup>st</sup> April, 2012. We are confident that JK Sugar will post improved numbers when combined with Dhampur given our size, focus on the business and the synergies that can be derived on a combined operation.

This brings me to the end of my discussion. I will now ask Mr. Arhant Jain to take you through the financial numbers of the Company. Thank you.

**Arhant Jain:** Good afternoon. I would now like to take you through the financial highlights of the Company for the quarter ending 30<sup>th</sup> June, 2012. Our total revenues and PBIT for the quarter stood at Rs. 363 crore and Rs. 43 crore compared to Rs. 251 crore and Rs. 34 crore respectively in Q1 FY12. Rise in revenues were primarily a result of higher sugar sales volume at marginally better realization combined with an improved performance of our ancillary businesses viz. power and chemical. Our interest cost was higher at Rs. 31 crore compared to Rs. 28 crore in the corresponding quarter last year. This increase is attributed to higher utilization of working capital. Profit after tax stood at Rs. 6 crore as compared to Rs. 1 crore in the corresponding quarter of last year.

Moving onto our balance sheet, the term debt as on 30<sup>th</sup> June, 2012 stood at Rs. 546 crore. We expect the working capital requirement to be lower as we liquidated our sugar stocks.

Let us now take you through business wise performance.

For the quarter ended 30<sup>th</sup> June, 2012, the sugar division reported higher revenues on the back of increasing sales volume at marginally better realization. The sugar segment contributed 67% to the total revenues at Rs. 259 crore during Q1 FY13 as compared to 78.8% at Rs. 207 crore in the same period last year. However PBIT in the segment were lower at Rs. 20 crore as compared to Rs. 30 crore in the corresponding quarter of the last year as a result of higher cane price paid during the season without a corresponding increase in realizations. As mentioned earlier, the power operations continue to partly mitigate the cyclicity in the sugar segment while contributing positively to our earnings performance. During the quarter under review, power revenues increased to Rs. 38 crore contributing 10% to total revenues. PBIT for the quarter stood at Rs. 7 crore. Revenues from our chemical business for the quarter improved to Rs. 88 crore. PBIT for Q1 FY13 stood at Rs. 15 crore. Going forward, we continue to focus on targeting business opportunity from the chemical, ethanol or rectified spirit segment that have better margins.

These on a broad levels are our financial numbers. We will be happy to answer any questions that you may have now.

**Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question is from Parineeta Poddar of ICICI Direct. Please go ahead.

**Parineeta Poddar:** Have we witnessed any increase in cane acreage. How much is it higher by? Also, could you share your views as to how rainfall is going to impact the production in U.P.?

**Gaurav Goel:** Cane acreage for the current year is higher than last year by about 8%. As far as rainfall is concerned, in the last week, there has been excellent rains in the whole of the state. Even though there was a bit of a dry period in July, but because of this rain, the cane crop has again revived and we believe that U.P. will manage to produce about 8 million tons of sugar in the next year.

**Parineeta Poddar:** We were just reading in the newspaper today that Maharashtra could see a shortfall in production to approximately 7 million tons from what it produces i.e. approximately 9 million tons. So how do you see the prices between Vashi and Delhi prices panning out due to this difference in production? Do you think that the variation would increase?

**Gaurav Goel:** I do not believe that the variation of prices would go up anymore. Variation of Rs. 150 per quintal which has always been there will stay. What we have to see is that incase Maharashtra and South, as what has been said, will produce lower and if India does produce 25 million tons in place of 26 million tons which has been produced this year, it will only have a minor impact on the export that might happen in the coming year. On a price front, I do believe that prices should stay stable at level of Rs. 32 to Rs. 34 per kg for the next 2 to 3 quarters.

**Parineeta Poddar:** So, if the prices are stable at Rs. 32-34 per kg for the next two quarters, then by the year end it could be an average of Rs. 31 per kg for the year, because it starts trending down in the last quarter.

**Gaurav Goel:** That maybe true, but again as we all know that in sugar to predict 3 or 4 quarters ahead is very-very tough because of the buoyancy in sugarcane in Uttar Pradesh. However, it is lower in the other parts of India, I do believe prices will stay stable.

**Parineeta Poddar:** The government has increased the FRP approximately by 17%. So what is the sense of how the SAP will pan out? Is it going to be higher than what it was? Is the government going to increase it and how much will the companies be paying this year for the cane, if you could just give me a broad sense of how it will be?

**Gaurav Goel:** Even after the increase of FRP to Rs. 170 per quintal, last year U.P. mills have paid Rs. 240 per quintal for sugarcane. As we can see that there is still a very large gap. So given that there are cane price arrears currently all over India, I do not believe that there will be too much of an increase in SAP for this coming year. But again it is up to the government and it is early days but that is what we all are hoping for.

**Parineeta Poddar:** What are your expectations for export for the next sugar season assuming that the country will produce about 25 million tonnes and we will have opening inventories of about 5-6 million tonnes.?

**Gaurav Goel:** India has already exported 3 million tons and there is a million tons more of contracts of which 600,000 are expected to move over the next 2 months. Seeing the current domestic prices vis-à-vis the global prices, I do not believe there will be any further contracts done over the one million ton which is still to go. As far as next year goes, if India does produce 25 million tons, we can expect about 2 to 2.5 million tons of that going by way of exports. So exports will come down and that is obvious because if India wants to produce less, then it is export which is expected to come down next year.

**Moderator:** Our next question is from Shyam Bhatt of Sunidhi Securities, please go ahead.

**Shyam Bhatt:** Predominantly from the global perspective we are already seeing a drought sort of situation in US and the soya bean and corn prices are shooting above the roof. So perhaps from a global perspective I think the divergence of sugarcane for the ethanol side could eventually turn out to be more severe as compared to the previous year. How do you see that global situation eventually panning out for the industry per se as the white sugar prices in the global markets have shot up in the last 2-3 months?

**Gaurav Goel:** As of now, the crop which is going on in Brazil seems to be quite good. Brazil south is expected to do about 32 to 33 million tons. Seeing that even India we will not have a surplus. So I do not believe that sugar prices will spiral up too much in this coming year. You will always see a 200-point swing which can always happen. White prices as of now are at about \$620 per ton and raw are about 22-23 cents. My view is that they will be range bound and I do not expect that global prices will have a very high spiral from here.

**Shyam Bhatt:** Again on the domestic side you have indicated a production of close to 25 million tons but normally during drought periods in 2002, 2004 and 2009, we have done a study that suggests that while in normal years, 70% of sugarcane goes to the sugar industry and balance 30% normally goes to the Gur, Khandsari and fodder, but in drought years the ratio tilts more towards Gur and Khandsari as well as the fodder. This time, already till date, we are seeing a deficient monsoon in Maharashtra and in Karnataka and to some extent to South; UP as you already indicated that situation is much better than what it was updating few days back. But how do you see the situation because the 25 million tons assumes that normal diversion to sugar industry but currently we have gone to the Maharashtra couple of cooperative mill and they are suggesting the situation is pathetic there and they are expecting close to 25-30% kind of lower availability of sugarcane So what is your take on that ground?

**Gaurav Goel:** As of now, in the last meeting that we had amongst all sugar manufacturers, this is a number which was sort of taken out. However, this is about 3.5 weeks old. So if you might be saying it can be lower, but again as you all know that rain if this would have improved even as of now, what will be the total yields

which we all can expect out of all of India. These are still very-very early days, so this 25 million tons is for surely an early estimate over the next 2 months and we will have further clarity on exactly where India would be as we move closer to the crushing season. But yes you are right, there is more of a negative bias on 25 million ton than a plus bias.

**Shyam Bhatt:** The Northeast monsoon, which was basically the winter monsoon, was also a failure and there are couple of areas which has witnessed shortage of water, especially in Maharashtra where the canals are not getting the proper water. Have we experienced a similar trend in UP also?

**Gaurav Goel:** No. The rains in eastern part of U.P. has been excellent. In western U.P. rains have picked up, Over the last week and hence all the rivers are back to their normal levels. The water table has also gone up. So in U.P. we have not seen that much of an issue of water as what you all are hearing from West and from South of India.

**Moderator:** Our next question is from Jehan Bhadha of Darashaw & Co. please go ahead.

**Jehan Bhadha:** Despite increase in cane arrears, we are expecting the acreage to go up. What could be reason behind this anomaly?

**Gaurav Goel:** There are two reasons. One is that cane price which has been paid for this year as we all know is very high which was at Rs. 240 per quintal against a price of Rs. 205 per quintal last year. This has given a big boost to all the farmers and that is why the planting of cane has been more. Also, the Companies in U.P. paid up the farmers relating to the cane price arrears of 2007-2008. Hence, the farmers got quite a bit of money and that is why the cane acreage has gone up. Even if we see the total arrears of Uttar Pradesh as of now, you will see that we all have already paid more than what we had paid last year and that is the biggest reason why we are seeing cane acreage going up.

**Jehan Bhadha:** And what about competing crops, wheat and paddy? Are they more attractive than cane or cane seems to regain its attractiveness?

**Gaurav Goel:** With the present pricing, cane is the more profitable crop at this point of time vis-à-vis wheat or paddy.

**Moderator:** Our next question is from Sachin Kasera of Lucky Securities, please go ahead.

**Sachin Kasera:** What is the type of crushing we are looking for this sugar season 12-13?

**Gaurav Goel:** Last year we have crushed 370 lakhs quintal of cane and for this current year we are expecting it to be anywhere in the range of 10% to 15% higher to around 405 to 420 lakh quintals is what we will crush in our four factories. This is not taking into account the merger of J K Sugar.

**Sachin Kasera:** Would this lead to a significant increase in the power that we export?

**Gaurav Goel:** As I said even in the opening remarks was this higher cane crush due to which we can get more bagasse and molasses, our power and our chemical side should even do better next year.

**Sachin Kasera:** Any sense in terms of with this 10-15% increase what is the exportable power? Will it also rise by 10-15% or does it go higher because the captive consumption power does not go up in line with increasing crushing.

**Gaurav Goel:** That is right; it will be higher than that. About 20-25% more power is what we can export out of our own fuel next year.

**Sachin Kasera:** For FY13 what is the type of CAPEX that we are planning to do?

**Gaurav Goel:** There is not too much of CAPEX which has been planned apart from the minor works which continues to happen. Major CAPEX as you all know is the merger of J K Sugar in Dhampur.

**Sachin Kasera:** So if I see the last 2 year's numbers for FY11 and FY12, we have done a total of around Rs. 150 to Rs. 160 crore of CAPEX. So what would be included in that number?

**Gaurav Goel:** The depreciation of the Company is about Rs. 65 crore per year. So this is basically onsite as to how to increase efficiency onto the three sides i.e. sugar, power, and chemical by way of steam saving. This has been a big part where we have been able to bring down the total steam that is needed for sugar production. Consequently, we have been able to save more bagasse for our power side. So this all CAPEX that we all are seeing is only on the side of efficiency.

**Sachin Kasera:** Could you quantify the capex for the next year. Will it be Rs. 50-60 crore or lower?

**Gaurav Goel:** You can expect it to be in the range of about Rs. 30 crore.

**Sachin Kasera:** The receivables have gone up from Rs. 55 crore in FY11 to around Rs. 210 crore in FY12. So what has caused this spike in receivables last year?

**Gaurav Goel:** The only receivables which have increased are on the side of the power export which are yet to come to the Company. Apart from that there is no other increase on the side of the receivables last year.

**Sachin Kasera:** What is the status of those receivables as on June? Have they got cleared or we continue to have net high of Rs. 200 plus crore of receivables?

**Gaurav Goel:** As of now they have come down to about Rs. 70 crore. . Balance there are no other major receivables for the Company.

**Sachin Kasera:** So this Rs. 210 crore primarily comprises of power dues as on March.

**Gaurav Goel:** Yes, major part of that was due of power.

**Sachin Kasera:** In the annual report you have given a vision to be one of the lowest cost producers of sugar in India as well as globally; so if you could throw some light on that as to what is the game plan out there?

**Gaurav Goel:** In order for us to be most efficient and how do we use low amount of cane to produce the sugar. So as of now within India we will be one of the lowest steam users for our own sugar operations and how do we enhance our power and chemical efficiencies. These are the three areas on which we have worked to bring down the cost on all three sides; but further work has to be done. Currently, we utilize about 42% steam for manufacturing of sugar and our target is to bring that down to 38% by next year.

**Sachin Kasera:** So are our conversion cost around Rs. 4 per kg?

**Gaurav Goel:** No, Rs. 4 per kg is very high. On a traditional basis, it comes to around Rs. 2-2.5 per kg.

**Sachin Kasera:** But that is assuming by-products credit or without that?

**Gaurav Goel:** You are right. If you talk about Rs. 4 per kg, it does not take the cost of bagasse.

**Sachin Kasera:** What is the target conversion price that we are looking from a 3-5 year perspective? Can this Rs. 4 per kg become 3-3.25 per kg?

**Gaurav Goel:** Rs. 3.5 per kg is the target.

**Moderator:** Our next question is from Girish Achhipalia of Morgan Stanley, please go ahead.

**Nilay Shah:** I have a broader question on the overall sugarcane consumption in this country, for the last 3-4 years you are seeing the numbers between 22 and 23 million tons and the end consumers of sugar i.e. the big industry seem to be growing revenues in excess of 15-20%. I am unable to understand why the overall consumption in our country is not moving up at a faster rate. So the question I am really asking is how confident are you of the ISMA numbers on the overall sugar inventory in the system?

**Gaurav Goel:** Your point is very valid but I will still say that because we do not have any real data that we get on this apart from the government and from ISMA for me to be able to comment on this. While you have a valid point, but unfortunately I have no answer for this. We are seeing a better demand from all these Pepsis and Cokes of the world, but on the overall consumption, I continue to hear that they are ranging from 22 to 23 million tons.

**Nilay Shah:** I understand the monsoon issues and everything and people are probably talking about lower production expected, but sugar prices are rocketing along at 15% just on the basis of production being down a million tons or so. How much of this in your view is speculative and how much of this is fundamental and can be sustained?

**Gaurav Goel:** Sugar prices have always gone up or down depending on what the market thinks about the future and so it is always been more on speculation to start with and then obviously the real numbers will have to pan out. So I would say that this current price increases that we have seen over the last month is to a large extent speculative.

**Nilay Shah:** Coming to your power division, what could be the total Cogen units produced during the next year?

**Gaurav Goel:** During the quarter, we exported 5.63 million units and our total for the year was up to March was 30.56 million units. We expect this to go up by at least 10% in the next year.

**Nilay Shah:** So about 50 crore units?

**Gaurav Goel:** We will produce over 50 crore units and out of that, about 35 crore units should be our export next year.

**Nilay Shah:** Would the PBT margins or profits on that per unit would be about Rs. 1-1.5 per unit?

**Gaurav Goel:** We will have to wait and see the cost of bagasse next year even though there should be slight reduction in the cost of bagasse due to more bagasse being available in the state. So it can go higher than Rs. 1.5 per unit.

**Nilay Shah:** What is your overall sense on following the change in the government in Uttar Pradesh? Are you witnessing an ease of doing business basically in UP in terms of ethanol movements, ethanol pricing, sugar pricing, cane arrears, everything?

**Gaurav Goel:** The new government has been very proactive with all of us and we have seen approvals and all these things are faster. So this is expected to have a positive impact over the next 3 to 4 years.

**Nilay Shah:** Can you quantify any benefits that you received thus far?

**Gaurav Goel:** There are no actual financial benefits but yes approval for export of ethanol, chemicals, we all are being able to procure them faster than we could last year.

**Nilay Shah:** In that case why have the alcohol prices actually moved up on a country wide basis?

**Gaurav Goel:** Alcohol prices have been pretty stable. It is currently the RS prices that are about Rs. 28 per liter which has been the case over the last 3 to 4 months.

**Nilay Shah:** And ENA?

**Gaurav Goel:** Our ENA is about Rs. 3-3.5 per litre higher than that.

**Girish Acchipalia:** How do you see this Rangarajan Committee which is expected to come out now to actually come through over the next six months on the recommendations made? What is your base case estimate?

**Gaurav Goel:** My base scale is levy and release mechanism to be done away with. On the side of cane price linkage that I believe might take some more time but levy and release is what we expect should be done over the next six months.

**Moderator:** Our next question is from Shyam Bhatt of Sunidhi Securities, please go ahead.

**Shyam Bhatt:** On the levy quota you have indicated that a high level committee has been formed and perhaps there will be something that will be done on that front. Is there any timeline which has been fixed for addressing these issues?

**Gaurav Goel:** There is no real timeline but yes they are in very advanced stages of finalizing their reports. We are hoping that by end of August it is put in front of the cabinet.

**Shyam Bhatt:** You believe that this quota can be removed or reduced to 5% from 10% currently?

**Gaurav Goel:** We all are hoping for the whole thing to be done away with. So levy presently at 10% to become zero. So I am hoping for that but I think anything can happen. What we have told them is to remove levy, remove release and also create a formula to link cane prices to sugar prices. These are the three basic things that we had asked from this committee.

**Shyam Bhatt:** I think linking cane prices to sugar prices will be a wonderful thing if it happens at all. There are large dues which are pending by a couple of companies to the farmers and after 2009 drought since the prices are skyrocketing, we have seen the acreage has gone up from close to 4.4 million hectares to this season 5.28 million hectares across India and we know this sugar cycle normally lasts for 3 to 4 years. Do you see this large end dues which are pending to the farmers, this acreage eventually going down let us say from next year onwards. Because already we are in this 3-4 year stage which is completing in this sugar season.

**Gaurav Goel:** Cyclicity has always been a part of sugar. It is also next year's planting will fully be dependent on what sort of cane prices are paid next year and that will be dependent on what is the next

year cane price and what is the sugar price during that time. As I said earlier also, presently for a farmer at this price of Rs. 240 per quintal, it is the most profitable crop vis-à-vis wheat and paddy. So, in case there are high cane price arrears then yes, even in the next year we can expect cane planting to come down. If the arrears are only marginal then I do not believe the cane planting will come down.

**Moderator:** Our next question is from Sachin Kasera of Lucky Securities, please go ahead.

**Sachin Kasera:** Will you have to make investments in JK Sugar for completing the integration on power and distillery?

**Gaurav Goel:** As of now, it has an export capability of 10 megawatts. It is obviously once the merger takes place next year and the cane area there seems to be growing at a very fast pace, there can be a plan from our side to increase the power export capabilities there from the current 10 megawatts to around 40 megawatts. But these are just early ideas and the final decision will be only made after the merger is complete.

**Sachin Kasera:** But we already started to give a thought process to the same?

**Gaurav Goel:** Yes, the thought process started even prior to us starting with the merger or to take over JK Sugar which was basically when we were making out our own plans. We had to make a five year plan for the board and then which obviously we thought about all of these things.

**Sachin Kasera:** As we close the merger, when do we expect to complete this project?

**Gaurav Goel:** See the merger as such is expected to be finished by March of 2013, in case it has to be finalized it will only be finalized after that and if we finalize it in March then from that time the power plant takes about 18 months.

**Sachin Kasera:** Assuming that the production in Maharashtra drops even below anticipation of 7 million to about 5-6 millions; would this mean that this Rs. 32-34 per kg sugar price band that you have indicated could probably inch a little higher to say Rs. 36-38 per kg?

**Gaurav Goel:** Maharashtra or if even India was to come down from 25 million tons to say 24 or 23.5 million tons, I do not believe the sugar prices to go up over Rs. 35 per kg because in that way you will see that exports will become as much pullover. So overall on a demand and supply basis, India will still be self-sufficient. So I personally do not believe that you will see prices of Rs. 38-39-40 per kg next year.

**Sachin Kasera:** Will we be eligible for the RECs?

**Gaurav Goel:** There is a bit of issue on paperwork between the state and the center. We are hopeful that within the month of August all those issues would get sorted out.

**Sachin Kasera:** So hopefully in FY13 we could have some extra income from the sale of REC?

**Gaurav Goel:** RECs will contribute a very large amount to the Company once all these issues are sorted out.

**Sachin Kasera:** Could you give us some indication in terms of what is the type of REC then going by the current price or what is the type of revenue it could generate for the Company? Will it be a recurring income every year?

**Gaurav Goel:** No, it will come in every year. Our estimate as of now is that we should be able to get anywhere in the range of Rs. 17 to Rs. 20 crore per year out of REC sale.

**Sachin Kasera:** Would this be a tax free income or is it liable to tax?

**Gaurav Goel:** No, it will be liable to MAT.

**Moderator:** Our next question is from Arun Baid of IDBI Capital. Please go ahead.

**Arun Baid:** What kind of arrears are there in UP as of now?

**Gaurav Goel:** I do not have with me the exact number but I would assume them to be around Rs. 2,000 crore but this is the estimate that I have got. I do not have the exact numbers for the whole of U.P.

**Arun Baid:** What would our number be?

**Gaurav Goel:** We have got cane arrears of about Rs. 55 crore.

**Arun Baid:** With regards to this recent rise in case of sugar prices, as you were saying it is quite a bit speculative. Don't you think that the government might come with a stock limit?

**Gaurav Goel:** We have had a dialogue that we have had with the government and do not think that they will come out with any real stock limit and this as we are saying are all speculative, they are all on future trade. So the stock limit do not have too much of an impact on this. But, I do not believe that there will be any stock limits which will be put currently.

**Moderator:** Our next question is from Pawan Kumar of Capital Market, please go ahead.

**Pawan Kumar:** Currently in the domestic markets, sugar prices are around Rs. 33-34 per kg. Are these prices sustainable and if they are, on what basis you are saying this? Can you say something on international sugar prices?

**Gaurav Goel:** I personally believe that these prices will stay stable over the next 1.5 quarters basically because of the type of exports that we all have already committed and seeing what the status of Maharashtra and South India is for next year.. I expect global prices to be range bound. They have been 21 and 24 cents per pound. I do not also see too much of an upward movement on the global prices because on the back of better sugarcane availability in Brazil.

**Pawan Kumar:** What were the total exports for the current sugar season and how much is your expectations for export for the next sugar season?

**Gaurav Goel:** Currently up till 30<sup>th</sup> June, 3 million tons of sugar had moved out of India and there is a million ton more of contracts which have been done which will have to go out. As far as next year goes, I personally believe that the total export numbers would be dependent on what India actually produces. So if India goes to produce 25 million tons which we are estimating as of now. India should export about 2 to 2.5 million tons next year.

**Pawan Kumar:** What are your expectations for sugar production for FY13?

**Gaurav Goel:** Our current estimate is at 25 million tons but as I said even earlier that over the next two months we should have a better finger on the exact number what is expected in India.

**Pawan Kumar:** This is on account of 10% lower production from Maharashtra.

**Gaurav Goel:** Yes, Maharashtra and from South.

**Moderator:** Our next question is from Avinash Gupta. He is a private investor. Please go ahead.

**Avinash Gupta:** Can you give us the stock of sugar, bagasse and molasses and at what price they are carried in the book as on 30<sup>th</sup> of June?

**Gaurav Goel:** Our total stock of sugar as of 30<sup>th</sup> June is 13 lakh quintals at an average price of Rs. 27.5 per kg. Molasses that we have in stock right now is 51,000 tons at Rs. 330 per quintal and our bagasse stock is at 90,000 tons carried at Rs. 1,300 per tonne.

**Avinash Gupta:** That means we are sitting on a huge amount of money in terms of value of inventory.

**Gaurav Goel:** Yes, but that is now being used to produce chemicals ethanol and RS. Our plants are on and will be running throughout the quarter.

**Avinash Gupta:** That means we will have a shutdown in somewhere around October-November?

**Gaurav Goel:** Let us see, if we can source any more raw material then we may even run it.

**Moderator:** As there are no further questions from the participants I would now like to hand the floor over the management for closing comments.

**Gaurav Goel:** Thank you so much. I would like to thank once again all of you for joining us on our call. If you have any further questions, please feel free to call us or our investor relations team, the coordinates of which are mentioned in the results presentation and concall invite. Thank you once again.

**Moderator:** Thank you very much gentlemen of the management. On behalf of Dhampur Sugar Mills Limited that concludes this conference call.

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