



Dhampur Sugar Mills Limited

Q3 & 9M FY12 Earnings Conference Call Transcript

February 17, 2012 at 4:00 PM IST

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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 are 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 the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Ishan Selarka of CDR India. Thank you and over to you sir.

Ishan Selarka: Thank you Laveena. Good afternoon and welcome to Dhampur Sugar Mills Limited Q3 and 9M FY12 earnings conference call. Today we have with us Mr. Gaurav Goel, Managing Director and Mr. Arhant Jain, Executive President Finance 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 the conference call may be forward looking in nature and a note to that effect was stated in the release and concall 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 third quarter and nine months ended December 31, 2011 and the opportunities going forward. Over to you Gaurav.

Gaurav Goel: Thank you Ishan. Good evening and a very warm welcome to all at Dhampur's Q3 and 9M FY12 earnings conference call. I would like to begin by sharing my perspective on the sugar sector while talking about the Company's operational performance following which Mr. Arhant Jain will take you through the financial highlights of the Company for the third quarter and nine months.

India began the sugar season 2011-2012 with an opening inventory of 5.5 million tons. We expect sugar production in the country during this year to be 26 million tons. The Government of India has permitted an export of 1 million ton of sugar and is in the process of allowing a second tranche of 1 million ton. To provide you with the perspective on our cane cost, the mills are currently paying the farmers a State Advised Price of Rs. 240 per quintal as compared to Rs. 205 per quintal last year. There is a limited visible improvement in domestic sugar realizations which are currently trading at Rs. 29 to Rs. 30 per kg ex-mill.

On the cane crushing side, the Company started crushing at all its factories in mid-November. Higher cane availability has increased our cane crush by 28% to 13.3 lakh tons. However, the recovery trends until 31st December have been lower than last year which has moderated growth in the sugar production. We are hopeful that as the season progresses, the recoveries would improve, which would enable production for Dhampur to be higher by about 15%.

The government has recently appointed a Committee that will recommend to the Prime Minister on the de-control of the sugar industry. The Committee is headed by Dr. Rangarajan and he is to look at the entire de-control scenario which includes doing away with levy sugar obligation, monthly release, permitting exports more proactively and having a scheme in place where cane prices are linked to sugar realizations. Any rational development on these would improve the performance of the sugar sector.

Let me now take you through the operational highlights.

In light of the challenging macro-environment we report operational performance driven primarily by the performance of our ancillary businesses. The growth in the sugar segment has been impacted primarily due to the high cane cost paid this year. Average free sales sugar realizations during the quarter and nine months stood at Rs. 30.69 per kg and Rs. 29.51 per kg respectively. The Company in Q3 FY12 crushed 13.3 lakh tons of cane compared to 10.4 lakh tons of cane in the previous year. This resulted in a total production of 1.11 lakh tons of sugar in the current season. The total inventory as on December 31st stands at 71000 tons of sugar comprising of free and levy sugar.

On the other hand, our ancillary businesses continued to augment performance driven by higher volumes and realizations thereby partially mitigating the challenges faced in the sugar segment, substantiating the fact of having built and an integrated business model. During the quarter and nine months period, Dhampur in its power segment generated 14.27 crore units and 22.39 crore units of power and exported 9.26 crore units and 15.48 crore units respectively. The average realization for the quarter stood at Rs. 4.24 per unit. For the nine months period power realization stood at Rs. 4.4 per unit. We believe that high cane availability and power trading opportunities will enable us to run our power plants for more number of days in off season of 2012.

Our chemical and ethanol division delivered an improved performance as a result of enhancement in production and sales volumes at higher realizations. The Company during the quarter sold 44.26 lakh kg of chemicals at an average price of Rs. 50.44 per kg. The Company also sold 57.88 lakh bulk liters of RS/ENA at Rs. 30.78 per bulk liters during the quarter.

To end our multi-faceted model including power and alcohol operations makes us better place to take advantage of the macro environment and enable us to ride the sugar cycles in a relatively better manner in which we believe will assist us in delivering superior performance on a sustained basis going forward.

I would now like to request Mr. Arhant Jain, President – Finance, to take you through the financial performance of the Company. Thank you.

Arhant Jain: Thank you sir. I would now like to take you through the financial highlights of the Company for the third quarter and nine months ending December 31, 2011.

Our total revenues for the quarter and nine months stood at Rs. 458 crore and Rs. 1,099 crore. The negative contribution from the sugar division during the quarter has been an offset by positive contributions from our ancillary businesses both in terms of volumes and realizations. PBIT for the quarter and nine months stood at Rs. 28 crore and Rs. 99 crore respectively. Our interest cost during the quarter increased to Rs. 21.5 crore. Please note that in accordance with the circular issued by MCA, the Company has reported a forex loss of Rs. 10.4 crore for the quarter and short-term monetary items and also a reversal of Rs. 5.1 crore towards forex loss tied in earlier two quarters on long-term monetary items. For the quarter and nine months period cash profits stood at Rs. 22.5 crore and Rs. 50.2 crore respectively.

As per the order of the Honorable Supreme Court dated 17th January, 2012, the Company is required to pay differential cane price for the sugar season 2006-2007 and 2007-2008 amounting to Rs. 47.36 crore. We are again going to the court in this matter.

Moving on to our balance sheet, the long-term debt as on 31st December, 2011 stood at Rs. 516 crore. The working capital requirement is expected to be higher in the subsequent quarter as production will continue to rise up to the end of March or early April 2012.

Let us now take you through the business-wise performance.

The sugar segment contributed 75.1% to the revenues at Rs. 441.2 crore during Q3 FY12 as compared to 81.1% at Rs. 481 crore in the same period last year. For the nine months period the contribution stood at 79.8% at Rs. 1005 crore. However, earnings in this segment during the quarter were muted as a result of higher cane price paid during the season without corresponding increase in realizations.

As mentioned earlier, the power operations continue to partially mitigate the cyclicity in the sugar segment while contributing positively to our earnings performance. During Q3 FY12 power revenues increased by 17.7% to Rs. 106 crore as compared to Rs. 90 crore in the corresponding period last year thereby contributing 17.8% to the total revenues. For the nine months period, power revenues stood at Rs. 153 crore. PBIT for the quarter and nine months stood at Rs. 30 crore and Rs. 34 crore respectively.

Revenues from our chemicals businesses for the quarter and nine months period improved to Rs. 40 crore as compared to Rs. 20 crore and Rs. 101 crore as compared to Rs. 66 crore respectively. PBIT for Q3 and nine months FY12 stood at Rs. 4.6 crore and Rs. 11 crore respectively. Going forward, we continue to focus on targeting business opportunities from the chemicals, ethanol or rectified spirit segment that offer better margins.

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

Moderator: Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Achal Lohade of JM Financial. Please go ahead.

Achal Lohade: What is the situation on the cane payment side? Just wanted to know if we have seen any arrears actually across the industry in UP? Secondly, do you see any arrears building up going forward, seeing the cost of production being higher than the realization at the moment?

Gaurav Goel: Yes, surely we believe that cane price arrears have started to build up and the cane price arrears have gone up to around an average of about 22 to 23 days from 14 days. With sugar prices at Rs. 29 to Rs. 30 per kg and high cane prices, by end of March you can expect a higher build up for cane price arrears happening in this state of UP.

Achal Lohade: Do you see that having a significant impact on the acreage for cane?

Gaurav Goel: That is true. Even though now the cane planting is just about to start, but with what is expected on the cane price front, I do believe that you will see cane acreage coming down for next year not only in UP but sort of similar stories are being heard even from other parts of India. So cane planting is expected to be lower next year. How much lower, it is still early to judge, but yes, we do believe that cane planting would be lower in sugar season 2012-13.

Achal Lohade: Is the current SAP far more profitable than other competent crops because thinking from a farmer's point of view may be that even though there could be some delays, but eventually they will get the cane price that is announced in the beginning. So at Rs. 240 a quintal do you think there is less incentive for farmers to shift from cane because anyways if not today maybe after six months probably they are going to receive any way the cane price. So do you see any validity in this particular argument or thinking?

Gaurav Goel: Only partly and that is why what we all are saying is that even after cane price arrears, it is not that farmers will stop planting cane totally, but for surely as we have seen even in the past as many years as we may go back to, we have always seen that every time that there has been cane price arrears, specially the smaller farmers have always switched to other crops where they get cash payment. So cane price arrears will have an impact on cane planting even though it may not be as much in the first year as to what can happen but for surely cane planting will come down this year.

Achal Lohade: Can you just throw some light on what are your expectations in terms of the sugar production for India and especially for states like UP, Maharashtra and Karnataka?

Gaurav Goel: See, as far as the total number for India goes, we will still stick to the 26 million tons as of now. For UP specifically, our number is at about 6.6 million tons, about 9 million tons from Maharashtra and about 3.8 million tons from Karnataka.

Achal Lohade: We have heard that there are issues with the recoveries in UP and there have been issues with the yields in Maharashtra and Karnataka. What is the sense you have on that particular aspect?

Gaurav Goel: Until 31st December 2011, we were seeing the recoveries were lower by about 0.3 to 0.4 bps in the state of UP. However, in the last 3 to 4 weeks, we have seen them go up drastically and I can talk about our own Company seeing the amount of cane crush that we have still left over because of a longer cane season that we will have and with the improved recoveries, we will be at almost same levels as last year.

Achal Lohade: Have you seen less diversion to gur and khandsari as more farmers are actually supplying cane to mill gate rather than supplying to gur and khandsari manufacturers?

Gaurav Goel: Only in about the last 3 weeks, we have seen a certain amount of diversion happening towards gur and that is basically because gur prices went up. However, because of the total amount of gur units as of now the prices have come off drastically. So even though there is a bit of cane diversion happening towards gur, we do not expect to have a major impact in the overall number for UP. So this 6.6 to 6.7 million tons is still what we expect.

Moderator: We will take our next question from the line of Siddharth from Crisil. Please go ahead.

Siddharth Mokkalpati: One is what is the differential currently between your export and domestic realizations?

Gaurav Goel: As of now in the present scenario and ex-mill price for export would be in the range of about Rs. 27 to Rs. 28 per kg and the domestic prices for Uttar Pradesh and for our region are in range of Rs. 29 to Rs. 30 per kg.

Siddharth Mokkalpati: So you do not find it feasible to export it currently?

Gaurav Goel: Yes, as of now for our mills, it is advisable to sell our license and the export to happen from South and from Maharashtra, than to export on our own from North India.

Siddharth Mokkalpati: So if you actually sell your licenses, you would get a higher realization than your export would? If you could explain that if you sell your export licence to a trader, would actually have to earn a margin on that license after he exports the sugar out?

Gaurav Goel: That is right but he would realize that the sugar prices as of now in Maharashtra as to what he can buy which is in the range of about Rs. 25 to Rs. 26 per kg. So even if he pays us Rs. 1,500 to Rs. 2,000 a tonne for the license and if he can get an ex-mill export price of Rs. 28, he still makes a bit of margin on that. Hence, because of lower prices in Maharashtra and in South, that is why the exports will happen from there and he will still be able to buy out the license.

Siddharth Mokkalpati: How much do you think would be the average recovery for UP this season?

Gaurav Goel: For UP, the average recoveries for the year should be in the range of around 8.9%.

Siddharth Mokkalpati: That will be a significant drop from last year or 9.15% this year?

Gaurav Goel: Yes, it was about 9.1% last year and it dropped to about 8.9% this year. For Dhampur, the average recoveries were 9.3% last year and we do believe that we will stay at the same number even for this year. That is basically because what we have seen is that our areas in which our plants are, it has seen a lower recovery drop and also because of the longer time period that our plants will run for and the recovery trends that we all are getting as of now are about 0.3 higher than last year. So we can make up what we have lost in the first two months of cane crush in the next period until about the middle of April. So that is why we are still confident that we will be close to last year's number.

Siddharth Mokkalpati: What is the landed cost of sugarcane?

Gaurav Goel: As of now the price is Rs. 240 per quintal at gate. So obviously after that when you add few of the other taxes and duties, it comes to around Rs. 250 per quintal of cane.

Moderator: We have our next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: I believe the Lucknow bench of the Allahabad High Court actually dismissed the petition on the SAP. So I was just wondering what is the status on the SAP now because we were also told that the larger bench of the Supreme Court is going to look at the SAP once again. So just wanted to know what exactly is the status on the SAP matter?

Gaurav Goel: The SAP matter, you are right, is that we all are going in for an appeal to the High Court judgment because we obviously do not agree with it even though that is a fact of the matter as of now. So in the next week, we do plan to file a SLP in the Supreme Court against that order of the High Court.

Achal Lohade: About the review of 2005 Supreme Court judgment, it was also mentioned in the news reports that it is referred to a larger bench of the Supreme Court. What exactly is the status on that front as well?

Gaurav Goel: For that, the matter has been referred to a seven judge bench. We are hoping for its constitution to be done by the end of this month.

Achal Lohade: On the decontrol front, we have read that the Prime Minister's office actually have set up a committee. Just wanted to know is it they are going to look at only those 2-3 aspects which the industry has been hoping for about the levy, release mechanism or they are going to look at all scheme of things, like the creation of a strategic reserve, cane pricing, cane reservation areas, everything?

Gaurav Goel: Achal, we all are hoping that they see everything but surely it might happen in a phased manner. So in the first phase, you may see the levy and the release mechanism going away and then in Phase two for surely which is a major part for us is linking cane price, with sugar price but that may happen in Phase two and not in the immediate phase one.

Achal Lohade: What are our contracts for ethanol with OMCs? What is the level of ethanol supplies?

Gaurav Goel: As of now, we all have now contracted for close to 3 crore liters to be sold to them this year but because of lower off take from north India as of now, the quantity by the end of 2012 might come down to below 2 crore liters. However, from our side because of our excellent sales that we are having from our chemical and from RS and from SDS, there is no loss but on the contrary we are getting a better pricing on these products than what we all are getting as of now on ethanol.

Achal Lohade: How soon do you see the ethanol price revision? We have been hearing for the last almost 3-4 quarters the industry has been hoping for the increase. What is the status? Do you see that happening in this current March quarter or do you think it can be delayed even further?

Gaurav Goel: We have been as of now assured that they will do it by end March but you are right that we have been hoping for it for the last almost a year now but we have been told is that after the 6th of March is when they will see it and finalize it by the end of March.

Achal Lohade: But that will be with retrospect affect or you think it could be only with a prospective effect?

Gaurav Goel: Retrospective seems a bit difficult. So I do believe it will be only prospective.

Moderator: As there are no questions, I would now like to hand the conference over to the management for closing comments.

Gaurav Goel: I would like to thank all of you for joining us on our Q3 and 9M FY12 conference call. If you have any questions please contact us by email or visit our website. I thank you once again for joining us on this call.

Moderator: Thank you sir. With that we conclude the conference. Thank you for joining us.

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