



“Dhampur Sugar Mills Limited Q2 FY17 Earnings Conference Call”

November 16, 2016



MANAGEMENT: **MR. GAURAV GOEL – MANAGING DIRECTOR,
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MODERATOR: **MR. MANISH PODDAR – RELIGARE CAPITAL MARKET**



*Dhampur Sugar Mills Limited
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Moderator: Ladies and gentlemen, good day and welcome to Dhampur Sugar Mills Limited Q2 FY17 Earnings Conference Call hosted by Religare Capital Market Limited. 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. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Poddar from Religare Capital Market. Thank you and over to you sir.

Manish Poddar: Hello everyone, welcome to the Dhampur Sugar Mills Q2 FY17 Earnings Call hosted by Religare Capital Markets. We have with us from the management Mr. Gaurav Goel – Managing Director, Mr. Arhant Jain – Executive President (Finance) and Mr. Nalin Gupta – Chief General Manager (Finance). Thank you and over to you sir.

Gaurav Goel: Thank you. A very warm welcome to all at Dhampur's Q2 and H1 FY17 earnings call. I would like to start by sharing my perspectives on the sugar sector and then following which, Mr. Arhant Jain will take you through the financial highlights of the company for the second quarter and the half year ended 30th September 2016.

India produced 25.1 million tonnes in the sugar season 2015-2016 that was 8% lower than last year of 28.3 million tonnes mainly due to a drop in the Western part of India. For the current sugar season 2016-2017 early estimates suggest sugar to be around 23 million tonnes while sugar production in UP is expected to increase but in other sugar states, it is expected to decline. The Indian sugar prices are stable and our currently is ruling at Rs. 35.5 to 36 per kg ex-mill. With expected lower sugar production this year, the sugar prices are expected to remain strong. On the demand side, India's consumption for FY16 was 24.9 million tonnes and is expected to grow next year.

Going into this year sugar season 2016-17, all our five sugar plants have started crushing operations. We expect cane crushing to be higher from last year. Our crushing for last year was 45.2 lakhs tonnes of sugarcane. The SAP for the year 2016-17 for the state of Uttar Pradesh has still not been announced and is expected shortly. Overall, we are glad to report a healthy performance wherein all segments reported positive margins during the quarter and the half year ended 30th September 2016. There was improvement in sugar prices from Rs. 23.89 per kg in Q2 of last year to Rs. 35.94 per kg in Q2 of FY17. Also, sugar prices were higher from Rs. 24.6 per kg in H1 FY16 to Rs. 35.5 per kg in H1 of FY17. In terms of sugar stock, the total sugar stock as of 30th September stands at 1.21 lakhs tonnes of sugar which has been valued at an average cost of 29.51 per kg.

Our ethanol and chemical division has done well as a result of improvement in sales. The company sold 151.81 lakh bulk liters of ethanol/RS at an average price of Rs. 43.07 per liter during the quarter. The company during the quarter also sold 13.29 lakhs kg of chemicals at an average price of 50.63 per kg. The company in this business continued to utilize its swing capacities to produce and sell either ethanol, chemicals, rectified spirit that may offer better

margins. One thing of importance is that the excise duty rebate on ethanol was withdrawn with effect from August 10, 2016.

During this quarter ended 30th September 2016, Dhampur in its power segment generated 1.36 crores unit of power and exported 0.73 crores units. The average price per unit for this quarter was Rs. 5.11 per unit compared to Rs. 4.97 of last year. The company has also made repayment of long-term loans of 108 crores during H1 of FY17 bringing down the total long-term loans from 680 crores as of March 31st 2016 to 572 crores on 30th September 2016. I will now ask Arhant Jain to take you through the financials of the company.

Arhant Jain:

Thank you sir. Good afternoon and thank you once again for joining us on the call. I would now like to take you through the financial highlights of the company for the quarter and half year ended September 30th, 2016. Our total revenues, EBITDA and PBT for the quarter stood at Rs. 659 crores, Rs. 109 crores and Rs. 60.4 crores as compared to Rs. 646 crores, EBITDA of Rs. 45.4 crores and negative PBT of Rs. 7 crores respectively in Q2 FY16. Our total revenues, EBITDA and PBT for H1 FY17 stood at Rs. 1,155 crores, Rs. 216 crores and Rs. 108 crores compared to Rs. 1,158 crores, EBITDA of Rs. 18.9 crores and negative PBT of Rs. 95 crores respectively in H1 FY16.

Rising PBT was primarily a result of sugar sales at enhanced realizations, higher efficiency combined with lower interest cost due to repayment of some loans. PBT for all the segments was positive during the quarter. Our interest cost was lower at Rs. 37 crores compared to Rs. 41 crores in the corresponding quarter last year. Profit after tax stood at Rs. 39.9 crores in Q2 FY17 against loss of Rs. 7 crores in same period last year. During H1 FY17, profit after tax enhanced to Rs. 73 crores against net loss of Rs. 95 crores in corresponding period last year.

Let me now take you through the business wise performance. For the quarter ended 30th September 2016, the sugar division reported revenues of Rs. 610 crores on the back of better realizations, which contribute to 88% of total revenues as compared to 82.9% at Rs. 632.6 crores in the same period last year. Moreover, PBIT in this segment was higher at Rs. 90.4 crores as compared to Rs. 26 crores in the corresponding quarter of last year as a result of higher sale realizations. The ethanol/chemical operations continue to contribute positively to our earnings performance. Revenues from ethanol/chemical businesses for the quarter stand at Rs. 71.5 crores from Rs. 91.7 crores in the corresponding quarter last year. PBIT for Q2 FY17 enhanced to Rs. 15.8 crores against Rs. 5.3 crores in Q2 FY16. Going forward, we continue to focus on targeting business opportunities from ethanol, chemical or rectified spirit segment that offer better margins.

During the quarter under review, power revenues are lower at Rs. 10.2 crores and PBIT for the quarter stood at Rs. 0.6 crores, as we used our old saved bagasse without any purchase of outside bagasse due to higher bagasse price. Power realizations were higher at Rs. 5.11 per unit against Rs. 4.97 per unit in the corresponding quarter last year. These on a broad level are our financial numbers.

On an overall basis, we are enthused by our performance. We believe that we have built a strong platform making us well placed to deliver sustainable results and our outlook for the future remains optimistic. Thank you once again for joining us on this conference call. We will be happy to answer any questions that you may have.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Sir, my question is regarding the production of the country. Last time also, I asked the same question, but this time I think there is some clarity regarding the production of Karnataka and Maharashtra, the Ministry is saying of production of around 50 lakhs tonnes in Maharashtra and around 30 lakhs in Karnataka. Based on that sir, the production of the country might come down to 200 lakhs tonnes and if I take production of UP at around 75 lakh tonnes, what is your view on that sir?

Gaurav Goel: Aman, even last time as I said that the satellite reports that we have been seeing and we have also done a lot of work on that. We still believe that Maharashtra should be far higher than the 5 million tonnes that I have been speaking about. So even if you recall even ISMA has come out with its own data. So we still believe that 23 million tonnes can be achieved in India this year.

Aman Sonthalia: Sir based on the recovery since a lot of factories have started in Maharashtra and Karnataka and if I see the recovery of their units, it is still lower by around 10% than last year. So what do you think that it will affect the production there?

Gaurav Goel: See, these are still very early days right, the factories have just started only about a week back, but surely the people who has spoken to in that part of India and even if you see the Central government, even they all are putting it at 5.5 million tonnes which I personally believe will be higher. So I still believe that 23 million tonnes is a fair number for India at this point of time, but obviously when we do a Q3 con-call, that time there will be far more clarity on the exact numbers that India actually produce.

Aman Sonthalia: And what about UP and what about Dhampur regarding the production?

Gaurav Goel: So UP last year was 6.8 million tonnes. My personal view will be 7.6 million tonnes or can be a bit higher this year. Dhampur had done 45.2 lakh tonnes of cane crush last year. We all do believe it will be higher and I think that in the January call, I will be able to give you a far more exact number but I can say that we are expecting a 10%-20% increase at this point of time, but I will come out with exact number in January of 2017.

Aman Sonthalia: 20% hike expecting for Dhampur?

- Gaurav Goel:** 10%-20% is our aim right now. The yields have just about started to come out, we have to also see what are the sort of yields we expect in plant cane. So that is why that is the range right now, but it is far higher than what we have done last year.
- Aman Sonthalia:** And any idea about the recovery sir because I think your Dhampur unit had started with a very good number and a small unit also. Any idea regarding Mansurpur and other two units, Meerganj and Rajpura?
- Gaurav Goel:** Our last year average for our group was 10.66%. I think that cane development work which has been done in all the 5 plants, we all have seen very good yields per acre and as you said, the trend as of now seemed to be extremely positive. The other three plants are also showing a positive hike from last year. So again hoping that we all will be in the top three of UP this year.
- Aman Sonthalia:** And sir one more question regarding this ethanol program. Previously I think we were estimating to produce around 9 crore liters of ethanol, so will stick to this figure or it may come down because of this lowering of price of ethanol.
- Gaurav Goel:** No, we are going to quote lower than what we did last year. So you are right about last year, we had quoted for 8.8 crores. This year, we will quote for about half of that. We will like get about half of that.
- Moderator:** Thank you. We take the next question from the line of Varun Lohchab from Religare Capital Market. Please go ahead.
- Varun Lohchab:** So sir firstly on the ethanol side with the lower realizations now going forward, what should we assume in terms of overall volumes for next year given the production will be higher and on realizations, how are they trending. So this Rs. 43 in this quarter must be with the excise benefit, so what is the market ruling price right now and what should we expect further in the next few quarters?
- Gaurav Goel:** So basically the basic price for last year was around 40.5 per liter, so, that was average price that we all expect for the balance and quantity which is left over. For the new tenders, the price which they have quoted is 39 per liter, so that is the price that we have to expect next year.
- Varun Lohchab:** So Rs. 1 lower than..
- Gaurav Goel:** About 1.5 lower than last year.
- Varun Lohchab:** And 43 which we did was including the excise benefit, so 40.5 is net of excise which you did?
- Gaurav Goel:** Yes, that is right. So 40.5 is the basic price and because on the 10th of August, the excise rebate was taken back, otherwise we would have been 45 right. So that is why the average was 43 because we only got it for 40 days out of the 90 days.



- Varun Lohchab:** And in terms of this disruption which has come in because of demonetization, so anything you are seeing from farmers in terms of cane availability like them getting it to the mills and all, is everything working okay or is it like much slower than what it usually is?
- Gaurav Goel:** No, it is totally fine because we make all our cane price payments through bank account. We do no cash buying of cane. So that is why the farmers get the money transferred straight into their accounts. We are seeing no sort of impact on this on our plants right now.
- Varun Lohchab:** And on the offtake side, offtake of sugar like through..
- Gaurav Goel:** Offtake for sugar for surely has been slower in the last one week because I think there, the traders are perhaps stating a bit of issue. I had a meeting with our agents 2 days back and they are hoping that by the end of the week, things should start to settle down.
- Varun Lohchab:** And you said the current prices are around 35.9 if I recall correctly, but I guess in October and all, they were higher, so they have come off marginally, is that right?
- Gaurav Goel:** So last 4-6 weeks, the prices have been almost the same. So they basically ranged in the range of 35-37 per kg and that has been the range. So it is just within that range right now.
- Varun Lohchab:** And by when we will get to know the new SAP?
- Gaurav Goel:** Hopefully, very soon Varun, even we do not have exact date on it, but the last information that we had it should be out in the next one week.
- Varun Lohchab:** And sir anything on the CAPEX plan for FY18, any clarity what would be the CAPEX?
- Gaurav Goel:** So the only thing is that for our chemical plant, we are putting two boilers in which basically the fuel used in these boilers will be affluent which comes out. So we are putting up one boiler in Dhampur and one boiler in Asmoli. The total CAPEX expected over the next 12 months is close to about 100 crores.
- Varun Lohchab:** Over next 12 months?
- Gaurav Goel:** Yes.
- Varun Lohchab:** And any surplus would go towards debt reduction that is fine.
- Gaurav Goel:** Yes, absolutely. Everything which is there will be used only for repayment of debt.
- Moderator:** Thank you. Next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

- Aman Sonthalia:** Sir one more question regarding the demonetization policy. I have talked to the people in UP, because of this demonetization policy, Khandsari units are closing down because they do not have the cash to run the plant and that sugarcane is being diverted to the sugar mills, so it will also give boost to the crushing of the sugar mills.
- Gaurav Goel:** Aman, we have been also just getting this sort of varied reports right now, but yes I agree with you that if this was to carry on, that should have an impact on this cane which is going through the Khandsari than to the Kolhus. So yes, your point is extremely valid, but as of now because it is very new. So it is still perhaps starting to happen, but going forward I think yes, it will have an impact and the factories might get more cane.
- Aman Sonthalia:** And sir what about the power rate, how much we are getting at present?
- Gaurav Goel:** So our average power rate for the group would be about 5.11 per unit.
- Aman Sonthalia:** And what about the interest cost sir, what will be the estimated interest cost for this coming year?
- Gaurav Goel:** Total saving or are you asking rate of...
- Aman Sonthalia:** Total interest cost, what will be the interest cost for 2016-17?
- Gaurav Goel:** As of now, we are just waiting for a very important thing to come out which is the cane price and also the other thing apart from the cane price whether it will be a one payment or in two instalments that will basically add to how much of my working capital I have to use either upfront or later. So we would not be able to give you an exact number on interest, but for surely it will be lower than last year.
- Aman Sonthalia:** And sir one more question, what are the probabilities that suppose this year if UP produces at around 26, so what do you think, what is the optimum level for UP, saturation point for UP?
- Gaurav Goel:** My personal belief is that with the early variety came which has now come into the state of UP because of which you are seeing all plants starting early like we ourselves have started our plants 20 days earlier and possibly that 9-9.5 million tonnes of sugar can be produced without any issue in UP.
- Aman Sonthalia:** So it will take 2-3 years to get that level?
- Gaurav Goel:** The way that the planting and like if the cane price payments happen extremely well this year, you may see it happening with 2 years' time.
- Aman Sonthalia:** And suppose if Maharashtra produces around 55, so what are the chances that Maharashtra in the next season, how much maximum we can produce?



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Gaurav Goel: As of now, you really cannot say a maximum, but for surely Maharashtra can always go back to the 8 million tonnes that they did last year and like we do believe that Maharashtra has to go back to the 8 million tonnes. In the year FY18, India might have to import sugar.

Moderator: Thank you. Since that was the last question, I ask the management if they have any closing comments to give.

Gaurav Goel: Yes, I would just like to thank all of you for joining us on the call and for taking out your time. If you have any further questions, please feel free to contact us either by phone or by e-mail. Thank you very much.

Moderator: Thank you members of the management. On behalf of Religare Capital Market that concludes this conference. Thank you for joining us. You may now disconnect your lines.