

Q2 FY20 Earnings Conference Call
Dhampur Sugar Mills Ltd.

Operator:

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

Mr. Prashant Biyani - Prabhudas Lilladher Pvt. Ltd:

Hello everyone. On behalf of Prabhudas Lilladher Pvt. Ltd. I welcome you all to FY20 earnings call of Dhampur Sugar. I would like to thank the management of Dhampur Sugar for taking the time out for today's concall. From the management side we have Mr. Gaurav Goel - the Managing Director, Mr. Nalin Gupta - the CFO, Mr. Vineet Gupta - Chief GM Finance, and Mr. Akshat Kapoor – GM Finance. I would request the management to discuss about the company's results and key industry highlights for Q2, and then we can start with the Q&A. Thank you and over to you sir.

Management

Thank you. Good afternoon and a very warm welcome to all at Dhampur's Q2 FY20 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, Mr. Akshat Kapoor will take you through the financial highlights of the company for Q2 FY20.

For the sugar season 2018-19, sugar production stood at 33 million tones in India. The domestic sugar consumption stands around 26 million tones. Domestic sugar sale realization ruling around 33 per kg ex-mill.

Government announced creation of buffer stock of 4 million tons of sugar for one year w.e.f. 1st August, 2019.

Fair and Remunerative Price (FRP) of sugar season 2018-19 remained unchanged at Rs. 275 per quintal linked to basic recovery rate of 10%, providing a premium of Rs. 2.75 per quintal for every 0.1% increase in recovery above that level.

Central Government has announced maximum admissible export quantity (MAEQ) of 6 million tones with the assistance of 10448 per MT to sugar mills for expenses on marketing costs, including handling, upgrading, other process costs, cost of transport and freight charges in order to improve the liquidity position of sugar mills and enable them to clear cane dues.

Sugar realization for Q2 FY20 stood at 32.70 per kg as against 32.37 per kg in Q2 FY19. Sugar realization for half year FY20 stood at Rs. 32.51 per kg as against 29.75 per kg in half year FY19.

Sugar sales for Q2 FY20 stood at 1.51 lakh tones as against 1.12 lakh tones in Q2 FY19. Sugar sales for half year FY20 stood at 3.78 lakh tons including raw sugar sale 0.59 lakh tons as against 2.94 lakh tones in half year FY19. In terms of inventories, the total inventory as on 30th September, 2019 stands at 2.9 lakh ton of sugar valued at an average cost of 29.69 per kg.

The company sold 238.7 lakh bulk litres of Ethanol/RS at average realization Rs. 40.69 per bulk litre during Q2 FY20. The company during the second quarter also sold 56.48 lakh kg of chemical at an average realization of 54.74 per kg. The company sold 554.8 lakh bulk litres of Ethanol/RS including 130.68 Lac bulk litre of ethanol derived from B heavy molasses during half year FY20 as against 444.22 lakh bulk litres in the same period last year.

During the quarter ended September 30, 2019, Dhampur in its power segment generated 1.41 crore units of power as against 1.68 crore units in same quarter last year and exported 0.07 crore units as against 0.33 crore units in the same quarter last year. The average realization for Q2 FY20 stood at 4.97 per unit as compared to 5.33 per unit in Q2 FY19.

I would now like Mr. Akshat Kapoor to take you through the financial performance of the company. Thank you.

Mr. Akshat Kapoor – GM Finance, Dhampur Sugar Mills Ltd

Thank you sir. Good afternoon and thank you once again for joining us for the call. I would now like to take you through the financial highlights of the company for the Quarter ended September 30, 2019.

Our total Revenues, EBITDA and PBT for the Q2 FY20 stood at 693.95 crores, Rs. 43.40 crores and Rs. 4.05 crores. As compared to Revenue of Rs. 532.78 crores, EBITDA of Rs. 74.33 crores and PBT of 44.28 crores in Q2 FY19 respectively. Our interest cost stood at Rs. 21.07 crores during Q2 FY20, as compared to Rs. 18.41 in Q2 FY19. Profit after tax stood at Rs. 2.05 crores in Q2 FY20 against Rs. 28.42 crores in the same quarter last year.

Let me now take you through business wise performance:-

For the quarter ended September 30, 2019, the sugar division reported revenues of Rs. 531.08 crores contributing 70.2% of total revenues, as compared to 64.9% at Rs. 375.28 crores in the same quarter last year. PBIT in this segment stood at Rs. 27.72 crores as compared to profit of Rs. 26.73 crores in the corresponding quarter of last year.

Revenues from Ethanol/Chemical business for the quarter stood at Rs. 148.51 crores against Rs. 118.36 crores in the corresponding quarter last year. EBIT for Q2 FY20 stood at Rs. 15.68 crores against Rs. 52.52 crores in Q2 FY19. Decline in margin in distillery segment is due to higher input costs of molasses.

During the period under review, power revenues stood at Rs. 18.81 crores with a loss of Rs. 5.42 crores as against revenues of Rs. 22.76 crores and loss of Rs. 4.59 crores in Q2 FY19. Power realization stood at Rs. 4.97 per unit as against Rs. 5.33 per unit in the corresponding quarter last year.

The company has made repayment of long term loans of Rs. 61.17 crores during the Q2 FY20. The long term loan as on 30th September, 2019 stood at Rs. 614.9 crores. These on a broad level are our financial numbers.

Now I would like to take over the question and answer session.

Operator:

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone wishing to ask a question may please press * and 1 on your touchtone telephones. If you wish to remove yourself from the question queue, you may press * and 2. Participants are expected to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Sanjay Munjal from ICICI Securities. Please go ahead.

Mr. Sanjay Munjal – ICICI Securities:

Hello sir. Just a few questions. Our sugar volumes have been higher compared to last year, whereas most of the other sugar mills have reported lower volumes. And mainly reasons given by them is that the monthly quota has been lower for them. So how up by 1%, whereas the general impression was that the sugar realization or the sugar price have been significantly higher. Most of the quarter it has been traded at above 32. So our realization is just up by a small %. So what are the reasons behind both the things?

Management

On the sugar sale part, I'm not sure, I'm not aware of the other companies, but that is as per the quota that we get from the government. So this is the quota that we have got. Because of B-heavy in Dhampur, we got extra quota on account of B-heavy sales. The government said in their scheme that anyone who will supply B-heavy will get extra sale quota. So that is the reason that our sales has been higher than other companies for this Q2. As far as the price goes, average price as we said is 32.7 per kg, which I think is in line with the average which would've been there for any other sugar companies. So the average price for Q2 has been 32.7 for us. Currently the prices are hovering around 33 to 33.5 per kg, as of now.

Mr. Sanjay Munjal – ICICI Securities:

Okay sir. So, considering that we have done approximately 3.2 lakh tons in first half, is it going to be the same run rate? Plus, what kind of exports have we already contracted and at what price have we done that?

Management

Our total MAEQ quota for export was 1.55 lakh tons. We have finished all our contracts for exports. Our exports are starting from next week and will get done by end of April.

Mr. Sanjay Munjal – ICICI Securities:

Okay. And what kind of domestic volumes should we doing, say in the next 6 months?

Management

See, it is very tough to say about the domestic volume as of now because we really don't know what will be our quota that we will get over the next 6 months. But it should be almost in line with what we have got in the past 6 months. Also, because of the fact that we are doing B-heavy at a higher quantum than we had done even last year. Last year our contract for B-heavy that we had done with the OMCs was about 3.3 crores litres. This year it is about 7 crore litres of B-heavy contract that we have got from the OMCs. So because of B-heavy sugar, the government should give us extra sale quantum to be sold in the local market for the loss of B-heavy sugar.

Mr. Sanjay Munjal – ICICI Securities:

Okay. So you mentioned 7 crores is the B-heavy. So overall what kind of a tender have we done for the entire year?

Management

We have just done B-heavy. We have not quoted for C as of now because you are also aware, that the UP Excise Department has done a levy of 18% for all sugar mills, which has to be sold by way of Molasses, ENA or by way of liquor. We have also started doing our own country liquor which started from last month. So, we'll be using our own levy to make country liquor, which we will supply. That is the reason why we have quoted lower to the OMCs.

Mr. Sanjay Munjal – ICICI Securities:

Is there a possibility that in our next contract, let's say January, we will be tendering for any other quantity other than 7 crores?

Management

Yeah, so that is an option that we have as of now. We will be seeing our sales of country liquor and of ENA for the next 3 months. And we will see the cane availability that we will get in January, we may contract for more in the January or the February tender, once it's out.

Mr. Sanjay Munjal – ICICI Securities:

But our capacity remains somewhere around 12 crores litres.

Management

That's right, our capacity is around 12 crore litres, but we did not want to take any further exposure with the OMCs, because we wanted to make sure the availability of molasses, this year we believe it will be lower and the prices will be far higher than what they were last year. And that is the other reason why, as of now, we don't want to expose ourselves by doing a higher contract with the OMCs, because the feedstock availability will remain a challenge over the next 9 to 12 months.

Mr. Sanjay Munjal – ICICI Securities:

What kind of ethanol volumes can we do with our own molasses?

Management

So that is what we have finalized. Because we are doing B-heavy in 3 of our plants, we will be doing about 7 to 7.5 crores of contract with the OMCs and about 3 crores with our own country liquor. So that's why we have only done with what is available with us for captive consumption, and not anything that we have to buy from outside. That is why, as I said earlier in the January tender, we will see whether we are able to procure any feedstock from outside, and then we will quote further with the OMCs. This planning has been done with our own captive and no buying from outside.

Mr. Sanjay Munjal – ICICI Securities:

Okay. But considering that you will be supplying a good amount of country liquor, our average realization will go down this year? Average distillery realized was generally around Rs. 42-43 I guess.

Management

We feel that our realization from country liquor will be around 43 only. So we don't believe that our overall realization will be lower. It should be higher because of the B-heavy quantity that we have increased from 3.3 to 7 crores litres.

Mr. Sanjay Munjal – ICICI Securities:

Right sir. Just one last thing on the balance sheet perspective. As we will be doing more of B-heavy, I would understand that our sugar inventories will substantially reduce in the next one year, and then we will be generating a good amount of cash flow from operations. So, how will we see our working capital debt or the higher cost working capital debt reduction in next 2 years?

Management

See, over the next 12 months, we believe that our sugar stocks as on date, which is as of now on 30th September is at 2.9 lakh tons. And seeing that overall India will produce lower this year. We are expecting as of now the estimates which are out is about 27 million tons. And if India is able to export 5 million tons, our stock of 2.9 lakhs will surely come down atleast by 15%.

Mr. Sanjay Munjal – ICICI Securities:

Okay. And do we have any debt reduction schedule or any debt reduction plan in the next 1-2 years?

Management

See, the extra cash flow that will come to the company, we can either repay or prepay our long term debt or use it in working capital. We will be seeing our own cash flows as to how much of prepayment of loans we will do. Or as you said very rightly earlier, if we can use it to bring down our total working capital limits.

Mr. Sanjay Munjal – ICICI Securities:

We don't have any plans for Capex?

Management

No, there are no major plans for Capex this year as of now.

Mr. Sanjay Munjal – ICICI Securities:

Okay. Thank you very much sir. It was really helpful.

Management

Thank you.

Operator:

Thank you. The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Mr. Aman Sonthalia – AK Securities:

Good afternoon sir.

Management

Aman ji how are you?

Mr. Aman Sonthalia – AK Securities:

I'm fine sir. Sir for the valuation of the inventory, how much rate have we taken for molasses?

Management

Molasses has been valued at Rs. 500 per quintal.

Mr. Aman Sonthalia – AK Securities:

Rs. 500 per quintal. And what was it last year?

Management

Last year at this point in time it was Rs. 20.

Mr. Aman Sonthalia – AK Securities:

Rs. 20. Sir, what is the current export realization?

Management

See, currently our average contract that we've done is at about 21,500.

Mr. Aman Sonthalia – AK Securities:

And what about the transport cost? Will it be borne by the buyer or the company?

Management

All these contracts that we have done is FoR port. So, the transport cost we believe will be in the range of 1,700 to 2,000 per ton.

Mr. Aman Sonthalia – AK Securities:

Okay. And sir, what about the cane price this season?

Management

That's still pending. We all are still awaiting for that from Lucknow. We are expecting it to be out in the next week to 10 days.

Mr. Aman Sonthalia – AK Securities:

And instead of B-heavy if we produce sugar, what is the rate for the sugar?

Management

Sorry, in case we don't do B-heavy?

Mr. Aman Sonthalia – AK Securities:

Yes. Suppose we are getting around Rs. 52-53 for that B-heavy molasses ethanol, instead of that if we produce sugar, what is the cost benefit we are getting in that B-heavy?

Management

We firstly believe that doing B-heavy at a price of 54, which is the price right now, the sugar price comes to approximately 33 per kg.

Mr. Aman Sonthalia – AK Securities:

Okay sir. And one question regarding country liquor. Is the realization better than ethanol through C-heavy molasses?

Management

No, it is almost the same.

Mr. Aman Sonthalia – AK Securities:

And sir, in some part of UP, I have heard about the red rot is happening. So, are we seeing anything like that in our area?

Management

Yes, so in two of our plants in Dhampur and Meerganj, we did find some plots which were infected with red rot. It is still on the very starting stage. But we have to be extremely careful. And we are working very hard to make sure that all the plots that were found with red rots were treated and were taken out.

Mr. Aman Sonthalia – AK Securities:

Sir, I'm talking to some of the cane people. It's a very dangerous thing and it can be very dangerous for all the mills in UP and it spreads like anything.

Management

You are totally right. Red rot is a very dangerous disease and it spreads very very fast. That's why all sugar mills have to be very very careful on this. As of now, as I said, it's just in the starting stage. So it's very important for every sugar mill to work very hard on this and to make sure that it doesn't spread and it's taken out immediately. But it's still in the starting stage and almost every sugar mill that I have been speaking to, we have been working, all our cane teams are working in tandem so that we help each other. Because it is not that, if I treat in my plot and the other person my neighbor won't treat, it will flow onto mine. It is very important for all sugar mills to work in tandem to make sure that this red rot is nipped in the bud.

Mr. Aman Sonthalia – AK Securities:

Okay sir, thanks a lot.

Management

Thank you Aman ji.

Operator:

Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in this conference, please limit your question to two per participant only. If time permits you can come back in the question queue for a follow-up question. The next question is from the line of Kush Gangar from Care Portfolio Managers Pvt Ltd. Please go ahead.

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

My question is on our ethanol margins. In this quarter the margins deteriorated significantly and they have been falling for the past couple of quarters. What would be the primary reason for the same?

Management

The primary reason last year was the peak stock price, molasses price last year was 200 per ton, this year it is priced around 1000 per ton. That is the only reason why you have seen margins have come down year-on-year. But going forward with B-heavy rate being increased by 2 per litre, we do believe that the margins will be better going forward for us.

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

Should it be back to our historical average of 35-40%?

Management

I don't believe they will be 35-40, our margins now will be in the range of about 25%.

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

So, this would be primarily due to transfer pricing, right?

Management

Correct.

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

But our sugar profits have not increased so ethanol profits should have been awarded to the sugar division due to transfer pricing but that has not happened, so what would be the reason?

Management

That is mainly on stock valuation. Also, we were not able to get the benefit of this quarter because most of the molasses that we used was outside stock. So, the molasses that we had bought from outside that is a large part almost 60% was used from what we had bought from outside that is why you have not seen the margins either on the side of ethanol or on the side of sugar.

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

Okay understood. And you mentioned about lower cane availability over the next 6 to 12 months, so any reason? Because UP production is expected to remain at similar levels or 2-3.5% decline, so what would be the reason for lower cane availability?

Management

I have not said about lower cane availability. I have said about lower molasses availability. That is only because of large amount of expansions have happened over the last 12 months and that is the reason that we feel that the availability will be lower than what it was last year and the prices would be higher. We are expecting a slightly higher cane crush vis-à-vis last year for Dhampur.

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

What were our ethanol sales volumes for 2018-2019 season?

Management

You mean last year or this year?

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

Last year.

Management

Last year our total ethanol sales during this period was 2.2 crore liters.

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

For the whole year?

Management

Are you talking about 31st March?

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

Yes, 31st March?

Management

31st March our total sales was about 9 crore liters.

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

And this year considering we don't want to buy it from outside, what could be the sales?

Management

We are expecting it to be about 10 crore liters.

Mr. Kush Gangar, Care Portfolio Managers Pvt Ltd.

Okay, thank you.

Operator

Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami, Stewart & Mackertich

My first question is on the sales quota mechanism that has come. What are the factors that it depends on, like which function of export even in the B-heavy? And what kind of run rate we should take going forward?

Management

I wasn't able to hear you.

Anupam Goswami, Stewart & Mackertich

The sales quota mechanism that has come what are the factors it depends on? Like you said, we are doing more B-heavy then we are given higher quota or if any other factors are also there, like say export. Going forward what kind of run rate we should take forward in our sugar volumes?

Management

Again, on the quota side it is very tough for us to really judge as to how much of quota every mill will get. But because of the fact that we believe that we will always have a higher quota because we have the largest volume of B-heavy contracts. Government last year also had said and this year also has agreed that those who will sacrifice sugar for B-heavy or for sugarcane juice they will get a higher quota and also if you do your exports, even you will get a quota for that. Because Dhampur we are doing both of it that is why our quota should be higher on an average vis-à-vis the India average.

Anupam Goswami, Stewart & Mackertich

So, it is depended more on how much we are doing B-heavy and how much export we are doing, right sir?

Management

Correct. These two are major factors for the higher quota that we can get.

Anupam Goswami, Stewart & Mackertich

Okay. And you mentioned about targeting around 7 crore liters for B-heavy and just now you said about 10 crore liters in that also...shall we assume that 3 crore liter is coming from the C-heavy which you haven't contracted yet, right sir?

Management

Yes. But from C-heavy as I said the 3 crore liters that we are keeping it for ENA and for country liquor which is as of now, as you know that there is a levy that UP has done of

18%. So, 18% of total molasses that any sugar mill will can only be sold to a manufacturer of country liquor. That's why the 3 crore we have kept for that.

Anupam Goswami, Stewart & Mackertich

If you can give some outlook on the country liquor how much are we targeting for FY20 and also in FY21 and what kind of realization or margin can we look at?

Management

We are seeing a CL sale of about 1.5 to 2 crore liters this year and we want to take it up to 3.5 crore by FY21. So, that is the target that we have. An average price of CL that we believe we can get is around 42-43 per liter.

Anupam Goswami, Stewart & Mackertich

What kind of margins can you make this year?

Management

Exactly the same that you have from ethanol i.e. about 43. So, around the margin of about 25% is what we expect out of country liquor. The most important thing in this is to create your brand. As of now, we have already started our sales for the last about six weeks. Market has taken our product well. Now it is all about volume growth.

Anupam Goswami, Stewart & Mackertich

Thank you.

Operator

Thank you. The next question is from the line of Chirag Patel from Bhavesh Investment. Please go ahead.

Chirag Patel, Bhavesh Investment

My first question is, what would be the effective tax rate for FY20?

Management

Ours is MAT, so it will around 22%.

Chirag Patel, Bhavesh Investment

My next question is a follow-up question regarding the red rot. What kind of recovery rate on the yields can we expect if it effects in UP for FY20?

Management

As of now it had no effect. Even if we see, our plants have started about two weeks back. The trends of both yield and recovery are better than last year, so we expect our plants to be better this year. Red rot has just started, it is still in the very infant stage, so that is why it is not had any effect as on date as of this year either on yield or on sugar content. But as I said earlier, in one of the earlier questions, this is a very dangerous disease and we all have to be extremely careful and we have to work very hard to see that it doesn't spread. As on date there is no effect of red rot.

Chirag Patel, Bhavesh Investment

Is there any arrears that you have pay to farmers as on September?

Management

No, all our cane prices are paid.

Chirag Patel, Bhavesh Investment

We are branding our sugar product, so what kind of branding expense do we spend on it? All the sugar production has been used for this only.

Management

No, branding is a very small part of our total sales as of now. And all the branding expenses that are there as of now on our branded sugar, we have no loss on that. So, all our branding cost we take it out of our higher sugar price that we get from our branded sales. So, there is no loss on the sale of our branded sugar. But the volumes are very-very low as on date. We are trying to make it higher. We are now also expanding our markets. Earlier our main market was only North of India. From the last quarter we have gone to the Western part of India. We also started some sales there. We will also be selling our sugar in the Eastern part, so we plan to increase the volumes but it will still be not a very large part over the next 12 months.

Chirag Patel, Bhavesh Investment

My last question is, considering the sugar raw material prices are same, then what can be the level of price on inventory we can expect by FY20 end?

Management

Are you talking about the stock valuation?

Chirag Patel, Bhavesh Investment

Yes sir.

Management

The stock valuation we believe that for Dhampur should be within the same range of 30 to 30.5

Chirag Patel, Bhavesh Investment

So, we can expect an increase in margins in sugar?

Management

Yes. See again, sugar margins are very much dependent on the sale quota which is given every month but currently as I said the prices are ruling around 33. So, we do believe that our sugar margins will be at least positive in the next 12 months for sure.

Chirag Patel, Bhavesh Investment

That's it from my side, thank you sir.

Operator

Thank you. The next question is from the line of Niten Shah, an individual investor. Please go ahead.

Niten Shah, Investor

My question is regarding the power accounting that we have done at Rs. 5. Roughly all other mills have I think gone at around Rs. 3, the new notified rates. So, are we confident that we would get around Rs. 5 per unit?

Management

Because there was hardly any export that we did during Q2. All the export that was done after July that has been done at the new rate. Export that we are doing as of now at the new rates of around 3 and 4 only.

Niten Shah, Investor

So, in this quarter it would be accounted at Rs. 3 per unit, right?

Management

Yes. So, four of our plants are rated around Rs. 3 and for one plant we are at Rs. 4.

Niten Shah, Investor

The next question is regarding the exports. You said that you have already contracted and it's going to start from next week so can we expect that this quarter we will have sales of around 50,000 tons for export?

Management

This quarter it should be around 40.

Niten Shah, Investor

40,000

Management

Yeah.

Niten Shah, Investor

So, we would have roughly total sales around 1.9 lakh tons, right? If I'm not wrong. Based on current run rate that we are getting.

Management

1.5 to 1.6 lakh tons from domestic market. yes.

Niten Shah, Investor

Sir, we already have got for October and November at around 96,000-97,000 tons.

Management

I am just saying on an average, it should be about 1.6 to 1.7 lakh tons.

Niten Shah, Investor

Second thing, the export quotas are tradable, right? So, would it be possible to export more like or the assistance that government gives which is Rs. 10,500 per ton, it is only for the quota that you have got? You cannot export more and get that benefit, is it like that?

Management

Yes. You will have to buy someone else's license if you want to export more. But yeah, this is a maximum amount of export that you can do. You cannot do over your quota with

your own for you to get the Rs. 10,500 per ton. This is the quota that is with Dhampur. In case I want to export more I have to buy someone else's quota. But as on date there are no real sellers or there are no contracts happening for the sale of the license.

Niten Shah, Investor

And from the B-heavy, I think all of our crushing this year will be only till B-heavy level, right? We won't be going for C-heavy, so all the 100% crushing would be till B-heavy or we would be going anything for C-heavy like doing some more recovery after B-heavy in any of our plants?

Management

So, three of our plants we are doing B-heavy and in two plants we are doing C. So, from the B-heavy we have done our contracts with the OMCs and for the C-heavy we will use ENA and country liquor.

Niten Shah, Investor

My question is with respect to the sugar production. For the amount of B-heavy that we are doing how much sugar we would be producing less, any rough estimate?

Management

Yes, we will be producing about 7 lakh quintals of sugar we will be making lower than last year.

Niten Shah, Investor

Okay, compared to last year we would be doing around 7 lakh quintals less. So, our sugar production would be somewhere around 7.3 to 7.5 lakh tons, right?

Management

Yes, anything from 7 to 7.3 depending upon the total cane crush.

Niten Shah, Investor

And we would be getting somewhere around 50,000 tons more compared to our normalized release quota, we would be getting somewhere around 50,000 to 70,000 tons more quota to sell in the local market, release quota because of B-heavy?

Management

Correct.

Niten Shah, Investor

Okay. So, can we assume that with the 1.55 lakh tons of export, with some more quota because of B-heavy and our normal run rate of the quota that we get we would be selling more than what we would be producing in this sugar season?

Management

Very-very tough to say that as of now. But for surely we do believe that 2.9 lakh tons that we have in stock as of 30/9 will be lower.

Niten Shah, Investor

Okay. Just one last thing. If we are selling the power that Rs. 3 a unit from our previous results and segment reporting that you do, roughly 40% is the margin on power that we get if we sell at Rs. 5, right? Then we would not be making anything. It would be like hardly anything in the power segment at Rs. 3?

Management

No. You will still be making money on that. I mean it is not that you will not be making money. If we see our EBIT for power as of 31st March 2019 for the whole year was 241 crores that will come down by approximately 70 odd crores, it will be lower.

Niten Shah, Investor

Around 70 crores would be lower, nothing more than that?

Management

Yeah. But again, the other thing that we have started doing now is that we have started not producing more power and we are trying to save baggasse. That is the other change which you will see year-on-year. So perhaps my power profit as such will come down. But I would have saved bagasse which then I will sell in the future months.

Niten Shah, Investor

That is great. Thank you so much.

Operator

Thank you. The next question is from the line of Govind Sahu from India Nivesh PMS. Please go ahead.

Govind Sahu, India Nivesh PMS

Out of the total sugar sale of 2.1 lakh liter in Q2 how much was export sales?

Management

There was no export in Q2. All our exports were done by June 2019 itself. So, there was no export in Q2.

Govind Sahu, India Nivesh PMS

I am unable to understand that our profit PBIT per ton in Q2 was Rs. 1.3 as compared to Rs. 2.4 in previous quarter despite realization increasing by around 0.35 paisa and the inventory gain also of 0.30-0.35 paisa. So, what explains this lower profitability?

Management

On the sugar side?

Govind Sahu, India Nivesh PMS

Yeah.

Management

Are you speaking vis-à-vis last year or vis-à-vis June?

Govind Sahu, India Nivesh PMS

Last year, Q2 FY19.

Management

Last year the biggest difference was that in the previous quarter we had booked an export loss of 23 crores which was reversed in 30/9/2018. So that was just an exceptional entry which happened last year. If you recall, even last year the government for a short period of time had announced an export quota. But then it was cancelled. So, we had done a contract with an export house but then they were not able to export. So, that loss of 23 Cr. which was taken in the previous quarter was reversed in September 2018.

Govind Sahu, India Nivesh PMS

Got it. So, actually the normalized profit for last quarter is 3.7 crores.

Management

3.73 crores. Correct.

Govind Sahu, India Nivesh PMS

Got it. And secondly sir on the power side you are saying that the reduction in profit 240 crores would be just 70 crores, so I mean how much per unit; 2 rupees would be the loss in profit or it could be more than that. I am unable to understand that.

Management

Loss in profit, so that is approximately about 30 and lower. And as I say that now we plan to export lower but we want to sell more bagasse. Bagasse as of today is 1800 per ton, right, so that makes it is more sense to sell bagasse than to produce power out of it. So earlier we would also use more bagasse to make power and we were not selling anything now we want to change that.

Govind Sahu, India Nivesh PMS

Okay, so let's see. Got it, thank you.

Management

Thank you.

Moderator

The next question is from the line of Karan Chopra, an Individual Investor. Please go ahead.

Mr. Karan Chopra, Individual investor

Hi good afternoon.

Management

Good afternoon.

Mr. Karan Chopra, Individual Investor

My question is regarding the power tariffs only, like currently that court case is going on, like you have any updates on that; regarding that.

Management

Yeah, the first hearing has happened. We have got 2 pleas, one is on retrospectivity where we all have challenged that we can not be retrospective. It can only at the best case be prospective, on that we are very hopeful of a very fast call. we believe this will happen. 2nd is on the cost of bagasse that UPERC has taken out 1000 per ton which is totally wrong. The court has asked them to file their replies. So the court case will go on but we are at least I can say that I am hopeful and confident that we should get a favourable judgment.

Mr. Karan Chopra, Individual Investment

Like just now we can expect that within this financial year only or it will take more time than that.

Management

I think it will take more time. I frankly don't think anything will happen till March. I will be pleasantly surprised if it happens till March but I think it will take at least 9 to 12 months for the case to finally get cut.

Mr. Karan Chopra, Individual Investor

If the case goes in our favour, as in the old power you have been already selling to the UP government that you would be getting that extra Rs. 2 that you are already selling to the UP government.

Management

Yeah, so I mean that in the billing, we are doing right now to UPPCL, the bills that are going is vis-à-vis the new rates but with a rider subject to court order.

Mr. Karan Chopra, Individual Investor

Right, so in case the case goes in your favour like it will take 9 months or 10 months, you can expect that the Rs. 2 will again like accounted in your books?

Management

Yes, I mean see whether we get the 2 bucks or the court says or you know the price comes to say 4 or 4.5, we don't know but what so ever is the extra price we will only take it in our books once the court case is finalized.

Mr. Karan Chopra, Individual Investor

Right, thank you so much. Thank you, sir.

Moderator

Thank you. The next question is from the line of Shridhar P. from Idea Ventures. Please go ahead.

Mr. Shridhar P, Idea Ventures

Good afternoon, sir, Sorry I was bit late and missed the information. One question I had is as per the current quarter how is the management feeling. I just wanted to understand because when we look at the numbers across both sugar and distillery segments, the revenue has gone up quite substantially but then the profitability has not happened. So where does the management think it has gone wrong. Where does the management feel that you know the strategy has got into some situation? Is there anything like that.

Management

No see, the Q2 for us will always be our weakest quarter. Because obviously the income in this quarter as such is that we don't produce anything in this, the biggest impact if you see which happened vis-à-vis last year was the price of molasses that last year was 200 per ton right now it is 5,000 per ton. That is the only reason but the next 2 quarters we feel that the company vis-à-vis our sugar mills, as I said all 5 of our plants have started. They are doing better than what we had started last year. So we are still very confident to be able to manage the run rate that we had last year to this year. So yes, Q2 numbers are weak but they were not anything that we were not expecting.

Mr. Shridhar P, Idea Ventures

Okay, so from your perspective and the management perspective it is in line with perhaps what you had envisaged. Is that correct to say.

Management

That's right.

Mr. Shridhar P, Idea Ventures

My next question, sir, is that, see the molasses movement as which only being the transfer pricing so the incremental impact of buying molasses from outside, if you have to give a perspective of what would the total impact of that to profitability, will it give some

perspective because right now what we understand is between sugar and ethanol, right, because it keeps moving between sugar and ethanol because it has become for ethanol. So if you saying the overall profitability has come down, I would assume it is because of molasses is being bought from outside. Now what is the quantum you know if you can give some perspective on that.

Management

Yeah, so in this quarter we have used almost 6 lakhs quintals from outside, I mean what we have bought from outside and the average rate of that was 540 per quintal so out there the margins that we have got was only about 12% was the margin that we got was from what we bought from outside and that is why you are seeing the lower profit in that segment. Going forward as I said as of now we are not planning to buy anything from outside. We are now only going to use our own captive which is basically in 3 plants we are doing B heavy and 2 plants we will be doing C from which we will be doing ENA and CL and that is the biggest change which you will see from last year to this year. We had to buy from outside because we had already done the contract with the OMCs so we had no choice but to work at a lower margin.

Mr. Shridhar P, Idea Ventures

So perhaps that is one element where perhaps we didn't expect the molasses prices to go up that high, is that a fair statement to make.

Management

Absolutely, you are way right on that when we had done our contract last year we had not expected the prices to go up that high. We had for surely assumed that they will not stay at 200 per ton but we had taken a price of 3500 was the maximum price that we thought that the price will go up when we all will start buying in April, May, June. But that price went up to 5400 so that was the biggest change vis-à-vis what we thought and what actually happened.

Mr. Shridhar P, Idea Ventures

See the other thing, sir, is what we understand that this year the production will be 25 million tons and the consumption will be almost equal. Given the opening stock will be somewhere around 14 million ton, we are talking about let's say 5 million for export I think that's what you had said which would effectively mean the end of season will be about 9 million ton as compared to 14 million ton where we are kind of starting the season. So that is a reduction of almost 30 to 35% in the inventory. So would we also see a similar reduction in the inventory, that is question number one. Number 2, I also want

to understand now there are Maharashtra mills and there are UP mills. Now this time the production in Maharashtra is going to be lower so when the release happens, will it be based on the production or will it be sort of a based on the mills per se as in Maharashtra mills then will have lower inventory because they will still have a similar quota. Is that what would be the approach.

Management

So as of now the government takes into account when they do their quota every month they all take into account 4 factors. Production how much you have made sugar, how much is your current stock, how much is your sacrifice on sugar on B heavy and your export. So these 4 factors play a role in making the monthly quota. So for surely we do believe, you are totally right I mean I don't think our India stock will come down to 9, my number is more around 10 to 10.5 million tons is what I believe that the India stock will be, 25 to 30% lower stock will be there in most of the sugar mills. We do believe that our quota should be higher because of our sacrifice of B heavy and because of our total export that we will do.

Mr. Shridhar P, Idea Ventures

So then I think, sir, previous one of the gentleman asked in terms of the overall inventory I thought you were mentioning about 15% so can we expect for the inventory to come down beyond a 30% given the fact that we have more B heavy and more sacrifice on export that means that can get lower.

Management

See again I will not be able to give you an exact number but for surely I do feel that Dhampur stock should be lower than India average.

Mr. Shridhar P, Idea Ventures

Because that has a huge impact for us from a cash flow perspective that is only reason why I am asking the question.

Management

No, your question is totally valid and that's why I am saying that vis-à-vis whatsoever is the India average stock, Dhampur stock will be lower than that.

Mr. Shridhar P, Idea Ventures

And you expect our profitability to normalize over the next 2 quarters, I mean this was a weak quarter but you expect the number to kind of somewhat improve in the next quarters is that your assumption?

Management

That will be a fair comment.

Mr. Suresh P, Idea Ventures

Okay, thank you so much sir, thank you.

Management

Thank you.

Moderator

Thank you. The next question is from the line of Anupam Goswami. Please go ahead.

Mr. Anupam Goswami

Hi, sir. Thanks for the follow up question. I just wanted to ask going forward your sugar margins are you expecting it to increase because one, the molasses transfer pricing is high and another is that the 23 crore loss quarter on quarter won't be there in next quarter, I mean quarter 3 last year. So over if we compare though are you expecting a significant improvement in the margins in the sugar segment.

Management

See for surely like I do feel that sugar segment will do better vis-à-vis last year in Q3 and in Q4.

Mr. Anupam Goswami

Okay, sir. And what is our cost of production for sugar.

Management

As of now our total stock which we have valued is 29.69 that is at cost.

Mr. Anupam Goswami

That is the cost. Okay, sir, thank you.

Moderator

Thank you. The next question is from the line of Shridhar P from Idea Ventures. Please go ahead.

Mr. Shridhar P, Idea Ventures

Sir, thank you for the follow up question. I wanted to understand how is the inventory valuation is happening given that there were no production in that as per my understanding. Last year, last quarter there was no production, right, so how does that total valuation keep changing.

Management

So, we basically assumed for, so when we do our own costing you basically take the costing for 12 months and then you basically break it up vis-à-vis and then the main cost is the cane cost. So your stock is, so whatsoever is your stock, your stock valuation as on 30th June was 29.64 and this we have just 5 paisa went up because of certain expenses that came in this quarter. So that is all, otherwise our stock valuation generally through the whole 12 months stay almost the same.

Mr. Shridhar P, Idea Ventures

Okay, thanks for that, thank you.

Moderator

Ladies and gentlemen, that was the last question. I now hand over the conference to Mr. Prashant Biyani for his closing comments.

Management

Thank you so much. On behalf of Dhampur I 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. You can also visit our website Dhampur.com and post any queries that you have. Thank you again.

Moderator

Thank you, ladies and gentlemen, on behalf of Prabhudas Lilladher Private Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.