

DHAMPUR SUGAR MILLS LTD

Q4 & FY 2019 Earnings Call

Company Participants

- Gaurav Goel, Managing Director
- Nalin Gupta, Chief Financial Officer
- Akshat Kapoor, General Manager, Finance

Presentation

Operator

Ladies and gentlemen, good day and welcome to the Dhampur Sugar Mills Limited Q4 FY '19 Earnings Conference Call, hosted by Prabhudas Lilladher Private 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. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Paarth Gala from Prabhudas Lilladher Private Limited. Thank you and over to you, sir.

Paarth Gala, Analyst

Good afternoon, everyone. On behalf of Prabhudas Lilladher, I would like to welcome you to the 4Q FY '19 earnings call of Dhampur Sugar Mills. The management today is being represented by Mr. Gaurav Goel, Managing Director; Mr. Nalin Gupta, our CFO; Mr. Vinit Gupta, Chief GM, Finance; and Mr. Akshat Kapoor, GM, Finance. I will now hand over the call to Mr. Akshat Kapoor for initial remarks, post which we will open up the floor for Q&A. Over to you, sir.

Akshat Kapoor, General Manager, Finance

Thanks, Paartha. Good afternoon, everybody, and a very warm welcome to all at Dhampur's Q4 and Annual FY'19 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 Nalin Gupta will take you through the financial highlights of the company for the quarter 4th and annual results for FY19.

For the current sugar season 2018/2019, revised estimates suggest sugar production to be around 33 million tons in India. The domestic sugar consumption stands around 26 million tons. Domestic sugar sales realizations are currently rulling around INR32.50 per kg ex-mill. We have crushed 69.42 lakh tons sugarcane during FY'19 as against 66.20 lakh tons in FY'18. Sugarcane crushed during Q4 FY'19 stood at 34.91 lakh tons as against 35.42 lakh tons in the same quarter last year. The sugar recovery has improved from 11.30% in FY'18 to 11.51% in FY'19. During sugar season, 18-19 we expect to crush around 69 lakh tons with recovery around 11.95% taking into account the loss of sugar in B heavy molasses as against 74.05 lakh tons with recovery of 11.36% in sugar season 2017-18.

Overall, we are glad to report a healthy performance wherein all segments reported positive margins during the quarter 4 and 12 months for FY 2019. Sugar realization for quarter 4 FY'19 stood at INR31.41 per kg, as against INR31.47 per kg in Q4 FY'18.

Sugar sales for Q4 FY'19 stood at 1.9 lakh tons including raw sugar sales of 0.30 lakh tons as against 2.04 lakh tons in

Q4 FY'18. In terms of inventory, the total inventory as on March 31, 2018, stands at 5.1 lakh tons of sugar including raw sugar of 0.59 lakh tons, valued at an average cost of INR29.34 per kg.

Our ethanol/chemical division performed very well, the company sold 259.42 lakh bulk litres of ethanol/RS including 160 lakh BL of ethanol derived from B Heavy molasses at an average realization of INR48.83 per liter during the quarter.

The company during the quarter also sold 24.08 lakh kg of chemical at an average realization of INR58.01 per kg. The capacity of the distillery had been enhanced from 3 lakh LPD to 4 lakh LPD recently. The company in this business continues to utilize its capacities to produce and sell ethanol, chemicals, ENA, rectified spirit that offer better margins. However, ethanol supplies will provide better margins due to lower molasses prices..

During the quarter ended March 31, 2019, Dhampur in its power segment generated 35.04 crore units of power against 34.63 crore units in the same period last year and exported 19.67 crore units against 19.97 crore units in the same period last year. The average realization for the quarter stood at INR5.22 per unit as compared to INR4.97 per unit in Q4 FY '19.

The company has made repayment of long-term loans of INR39.97 crores during the Q4 FY '19. Total repayments of long-term loans during FY '19 stood at INR121 crores. The long-term loan as on 31st March, 2019 stood at INR691.07 crores. I would now like Mr. Nalin Gupta to take you through the financial performance of the company. Thank you.

Nalin Gupta, Chief Financial Officer

Hi. Good afternoon, everyone. I'll now take you through the financial highlights of the company for the Q4 and year-ended 31st March, 2019. Our total revenues, EBITDA and profit before tax for the quarter stood at INR 888.37 crores, INR192.85 crores and 137.14 crores respectively. As compared to revenue of INR921.24 crores in Q4 FY-18, EBITDA of INR26.79 crores and PBT of INR(18.37) crores in the same period last year. Our total revenues during this financial year is INR2,954.06 crores, EBITDA is INR481.22 crores and PBT stood at INR319.15 crores as compared to revenue of INR3,395.81 crores, EBITDA of INR381.83 crores and profit before tax of INR202.58 crores for the 12 months year-ended March 2018.

The rise in profit before tax was primarily because of higher volume and better margins in ethanol segments and that has also been further added by B heavy ethanol supplies. EBIT for all the segments were positive during the quarter. Our interest cost has reduced to INR 91.30 crores during the financial year 2019 as compared to INR121.5 crores last year. Profit after tax stood at INR108.82 crores in Q4 FY '19 against loss of INR (8.91) crores in the same period last year. During the FY 2019, profit after tax enhanced to INR250.92 crores from INR151.26 crores last year.

Now I'll take you through the segment wise performances. For the quarter ended 31st, March 2019, the sugar division reported revenues of INR772.24 crores, contributing 60.04% of the total revenue, as compared to 66% of total revenue at INR788.62 crores in the same period last year. EBIT in the segment stood at INR10.42 crores as against loss of INR (125.83) crores in the corresponding quarter of last year. EBIT from the sugar segment for the FY2019 stood at INR30.67 crores as against INR 87.67 crores last year.

Ethanol and chemical operations contributed significantly to our earning performance. Revenues from the ethanol/distillery segment stood at INR139.25 crores for the quarter ended 31st, March 19 as against INR107.98 crores in the corresponding quarter last year. EBIT for Q4 FY'19 stood at INR42.28 crores as against INR31.40 crores in Q4 FY18ar. EBIT from distillery and chemical segment for FY'19, , stood at INR185.8 crores, which has improved significantly from INR63.80 crores in FY 18r. Going forward, we continue to focus on targeting business opportunities from the ethanol, chemical or rectified spirit segment that offer better margins.

During the quarter under review, power revenues are higher at INR269.61 crores and EBIT for the quarter stood at INR118.67 crores, as against revenues of INR258 crores and EBIT of INR115 crores in Q4 FY 18. Power

realisations stood at Rs. 5.22 per unit against Rs. 4.97 per unit in corresponding quarter last year. EBIT from power segment during FY 19 stood at INR241.10 crore as against INR219.70 crores last year. These were the broad level financial numbers.

So I would like to invite questions from anyone please.

Questions And Answers

Operator

Thank you very much. We will now begin the question-and-answer session. (Operator Instructions) The first question is from the line of Varinder Bansal from Pantomath. Please go ahead.

Varinder Bansal, Analyst

Thank you for taking my question. Couple of questions, when did the expanded capacity go live sir?

Management

So we had two expansions, one at Dhampur and another plant is at Asmoli. Both the plants are already live. Dhampur plant was established around end of February 2020 and Asmoli plant was established around the middle to the end of April 2020.

Varinder Bansal, Analyst

Okay. And this time it seems that the power and other segment have contributed heavily in terms of sales, not that much which happened with the chemical and ethanol, even in the EBIT margin, any particular reasons?

Management

See, on the power side it will be pretty standard as to how much we will be earning on the EBIT and on the sales year-on-year, it will change slightly depending on the amount of days of cane crushed. While on the ethanol side, obviously, because of better sales and because of better pricing that we have had, you will see a growth in EBITDA margin of that segment. And we do believe that will carry on for the next couple of years.

Varinder Bansal, Analyst

Okay. My last question is on the CERC guidelines, the proposal which has come on-trade in terms of reduction of the power tariff by nearly INR 2. Can you help us with an update on what is it, one, and second, by when we can have a clarity on the same?

Management

Yeah, so this draft guideline came from UPERC, which is the state board, in which every five years the PPA as to the power tariff is sort of revised. The only difference being that the parameters that they have taken in the draft of guidelines are wrong, in which the cost of bagasse has been taken at INR1,000 per ton. Also the heat rate, which is rate for the 3600 has been brought down to 3200. We all are in dialog with them as of now to try and see if they will revise it rightly and we all are hopeful that the numbers, which are there right now are not correct. So we are, as of now, in

talks in Lucknow to try and see to get it right. And, hopefully, it will be done.

Varinder Bansal, Analyst

In the mean time, we have this clarity, sir?

Management

Anyone's guess, but I think that the final price should be out within the next two weeks.

Varinder Bansal, Analyst

Okay. And, sorry, just last question, continuation question. We were expecting how much drop in terms of prices like the industry. I think, please correct me. I think they were ready to that if the prices go down by INR0.40 or INR0.50, that was still absorbable, but INR2 if it happens, that could be big in terms of hit on the numbers, right?

Management

In case the power tariff is brought down by close to 30% to 40%, obviously, it will have a huge impact on the margins of that segment. But as I said earlier also, we all are hopeful because the guidelines, the parameters that have been taken are not right. So we hope that they will revise them to the right sort of levels.

Varinder Bansal, Analyst

Thank you so much. I'll join the queue, sir. Thank you.

Operator

Thank you. (Operator Instructions). The next question is from the line of Achal Lohade from JM Financial Limited. Please go ahead.

Achal Lohade, Analyst

Yeah, thanks for taking my question. So just wanted to understand, one, in terms of your cost of production for sugar and ethanol?

Management

So on the cost of sugar, our stock valuation as of 31st, March is INR 29.96 per kg for white sugar; on the ethanol side it varies based between C and B heavy. Our average cost is around INR 27 per litre.

Achal Lohade, Analyst

Sir, second question I had is with respect to UP sugar production. So what is the outlook for the currencies and how much do we end up with and how do you see it going forward for next year?

Management

UP should end at around 11.8 million tons. As of now till date, we have produced 11.72 million tons, most of the plants

are now shut. So I expect it to be up to 11.8 million tons. As far as India goes as we said earlier, it should be around 33 million tons, should be India. Going forward, the planting seems to be okay right now, there is no drop in planting, actually I believe planting can actually go up slightly. So UP, you should again expect to be around the same range next year, I think over the next four to six months depending on monsoons, we will then know what are the sort of yields, then we will be able to come out with a better number. But on the planting side, we all are not seen planting going down, actually it should go up.

Achal Lohade, Analyst

Understood. Sir, just one last question with respect to B molasses, what is the mix for us in terms of B and C for our ethanol production?

Management

So for B-Heavy molasses derived ethanol,, we had only done contracts up till May for our Dhampur plant, so that has already been committed and sold to the OMCs. Our total sales of B heavy for the quarter was 160 lakh liters and of C heavy was 89 lakh liters. For the whole year, the B heavy derived ethanol was 207 lakh liters and C heavy was 639 lakh liters.

Achal Lohade, Analyst

So how do you see it going forward in terms of the mix, do you see you going 100% for B heavy and in that case also, I wanted to check your perspective on the industry with respect to the impact on the sugar production if this B heavy picks up nicely?

Management

See, I think that going forward, B heavy and sugarcane juice and exports are the three futures for Indian sugar. India has been a surplus manufacturer for the last three years, even assuming that the Western part of India does come down next year, that are the sort of talks due to drought that we all are hearing right now. But with the closing stock of sugar that India has, I think that B heavy will be the only game changer. As far as Dhampur goes because of our capacity that we have right now of 400 kl per day, we are planning to do B heavy from all five of our plants. We all are planning for the same, but, obviously, we'll have to wait till August when the new tender is out to see as to how much of B heavy we all do. This year, approximately 3.1 lakh quintals of sugar got diverted to B heavy. I believe that next year can be almost over a million ton and by 2021, it can be about 2.5 million tons of sugar can be diverted into B-heavy.

Achal Lohade, Analyst

Understood, sir. Thank you so much, sir. I wish you all the best.

Management

Thank you, Achal.

Operator

Thank you. (Operator Instructions) The next question is from the line of Ritika Agarwal from QUEST Investment. Please go ahead.

Ritika Agarwal, Analyst

Hello. Thank you for taking my question, sir. Sir, have you planned anymore distilleries going ahead?

Management

No, Ritika, as of now we have the capacity of 400 kl that too after 100 kl expansion, , I think that the capacity of 400 kl is sufficient. We all do believe that any further expansion will not be in this year for sure. As far as 2020 goes, we will see what is the availability of raw materials that we all will have for us to plan this for capacity expansions. So for 2019, no further expansion in this segment.

Ritika Agarwal, Analyst

Okay, sir. Sir, and how many days of operational do we have for the distillery?

Management

So we plan to operate our plants for 330 days,. We have availability of 270 days, for the balance 60 days, we buy it from outside.

Ritika Agarwal, Analyst

Okay. So typically a distillery can run around 330 days and not beyond that?

Management

No, we can run up to 350 days. So we've already got permissions for 350 days.

Ritika Agarwal, Analyst

Okay. So that is the maximum number of days a distillery can operate, is it?

Management

Yeah, because, see, you will need two weeks of closure, right, for repair and all. So 350 days is what is the maximum permits which you get.

Ritika Agarwal, Analyst

Okay. Sir, so you said that we have contracted only B heavy till the month of May, so isn't it that the tenders are to be applied for the entire year and not for the particular month?

Management

Yes. So for the Dhampur unit, we applied for B heavy up till May and then for C heavy up till the end of the year. So we will be supplying C from Dhampur now from starting of 1st of June.

Ritika Agarwal, Analyst

Okay. Sir, and one question on the compressed biogas opportunities that the government is talking about setting up 5,000 plants in next five years and sugar mills being the first one to be targeted due to the press mud availability. So how do you see this opportunity for your company?

Management

So, Ritika, we have put a team to study this because this has just happened in the last about four months, so a team is

studying this from our side to see what is the viability of these CNG projects.

Ritika Agarwal, Analyst

Okay. And what do you expect and what time should we get any clarity on the same, because the announcement was done in October, but as of now six, seven months, we've not got any update as to how this is being planned in the industry?

Management

Yeah, so because of the fact that this is the first time recycle has happened, we are trying to talk to the experts who are doing this, talking to the plant manufacturers about how realistic it is that it can be done. So I think it's still in a very early stage but I think that over this year, you will see some sort of reports coming out about the viability of CNG out of press mud and out of spent wash.

Ritika Agarwal, Analyst

Okay. And one last question, sir, if I could squeeze in. How do you feel about this government ethanol blending policy of 10% and then probably to 20% by 2020/30, so what risk or languages challenges do you see in this? How do you see on-ground implementation of the same and do we envisage a huge Capex coming forward for the increased blending?

Management

So I think that what was done last year was absolutely outstanding. This is the need with the surplus sugarcane that India has started to produce year-on-year, and we're seeing the global surplus also. I think that B heavy and sugarcane juice diversion is the only answer that India will be able to meet up with this huge surplus. So I think it's a great possibility and I'm pretty sure that it will carry on for the long term.

Ritika Agarwal, Analyst

So assuming that currently the industry is at full capacity being utilized, so what kind of Capex do we envisage going forward for this blending increase?

Management

As of now, the full capacity is being utilised, but if you see there is a lot of expansion, which is happening in this site. There are almost close to about 35 to 40 plants, which are expected to come up over the next 2.5 years. So you will see a lot of B heavy going into this and that was the biggest thing that expansion was not happening because of non-availability of raw materials. Now with B heavy, expansions are happening and we can divert sugar into this. And that is what you'd see happening at a very fast pace in the next 24 to 36 months.

Ritika Agarwal, Analyst

Thank you, sir. Sir, you've mentioned about sugarcane juice. So are we seeing plants being setup for sugarcane juice also. So what kind of Capex do a sugar mill have to incur for conversion of cane juice to ethanol?

Management

See, again, it is exactly the same Capex, the only thing is that the plant has to be slightly bigger. And also the storage for sugarcane juice is slightly higher. So now what we will request government to do is to allow partial sugarcane juice instead, I mean, in place of the total sugarcane juice, which is there right now. So as soon as the new

government is formed , we all do plan to go and represent to them to allow partial sugarcane juice in place of total juice. Otherwise, there is no change in the plant.

Ritika Agarwal, Analyst

Okay. So you can use even the current plants to produce-?

Management

Yeah.

Ritika Agarwal, Analyst

Okay. Sir, what do you mean by partial sugarcane juice and not full?

Management

So as of now in the current plant which is there, a sugar mill has to use total juice for the whole season. So it is not it can do it for 20 days or for one month. So sugar mills do not have the capacity to use that much of juice. So that's why we will request government to allow partial sugarcane juice in place of total.

Ritika Agarwal, Analyst

Okay. Okay, that's it from my side, sir. Thank you so much.

Management

Thank you so much, Ritika.

Operator

Thank you very much. The next question is from the line of Chaitanya Shah from Aditya Corporation. Please go ahead.

Chaitanya Shah, Analyst

Hello, good afternoon, sir.

Management

Hi, afternoon.

Chaitanya Shah, Analyst

Sir, my first question is

Operator

Sorry to interrupt you, can you please speak a bit louder?

Chaitanya Shah, Analyst

Yeah. Can you hear me now?

Management

Yes.

Chaitanya Shah, Analyst

Sir, so my first question is regarding the CERC policy that you were discussing earlier in the call. You mentioned that you will have to go to the court if the price is not changed. I wanted to understand what is the procedure going to be like, is it you ,is it sugar companies having been forced to take the INR2 hit first and then you go to the court and then the price is changed according to the court level , court judgment or how do you figure this issue is going to turn out? If you could just give me your view on that.

Management

Sure. So this guideline is not from CERC. This is from UPERC, so this is the state mission, which has come out with these draft guidelines. As I said earlier, we are hopeful that they will revise the wrong numbers that they all have got. If by chance that won't happen, we are still hopeful, then we will have to go to court just to ask them for UPERC to get the right numbers. So in the interim, it will depend what the court will actually say, whether they will stay this order. Court is still the last step, we all are still trying with the administration for this matter to be solved. Let's hope that in the next week to 10 days, we are able to solve this issue.

Chaitanya Shah, Analyst

Okay. And sir, I mean, I'm asking this question because again it brings to the problem of viability of sugar mills, right, because the government has worked so hard over the last year or two, and brought in so many reforms. But, I mean, mills like this just sort of take us back to where the industry was around six months back, what do you think, do you think that makes sense?

Management

Yeah. So I think that both the state and the centre have been very proactive over the last two years to get ensure a viability for sugar and mainly for the cane price to be paid to our farmers. That is why I'm saying I'm hopeful for an institution to be formed even in this area because power revenues are a very important part of cane price payment. So that is why I believe that governments will step into this, if they see any wrongdoing, which will happen.

Chaitanya Shah, Analyst

Okay, sir. Sir, my next question is regarding the sugarcane juice that you were talking about, do you expect any change in the price of the ethanol tender going forward by the government in the next season?

Management

Ethanol pricing is linked to sugarcane pricing. So there is a formula in place already. So the prices will change depending on the cost of raw material and the cane cost. So you can only see a difference in pricing if either or both of them change.

Chaitanya Shah, Analyst

Okay. And sir my last question is regarding the arrears, I am assuming the arrears has been looking currently in the ballpark range of INR10,000 crores. So my question is why are we not seeing farmers getting disincentivized to plant

less sugarcane. I mean, do you think the sugarcane excess production cycle has gone on much longer than it usually used to go on? Just want to understand.

Management

Yeah, so for surely it has gone far, far more than what it ever did and the reason why the farmers are not switching from the cane crop is for two specific reasons. One, the yield per acre has gone up by almost 1.5 times for the farmer. Secondly, the price of sugar cane has increased more than any other crop. Thirdly, the profit that a farmer earns from sugarcane is the highest amongst any other crop. So even if he pays the partial payment of his cane price, he still makes more money than any other crop and fourthly, cane is one of the hardiest crops, it can withstand floods, drought, heavy winds plus it's a very easy crop to manage, that is why you are seeing that it is not coming down even with such huge cane price arrears.

Chaitanya Shah, Analyst

So do you think that sir, do you see any sort of change in the situation going forward in the next, say, three to five years or do you think this is a problem, which is going to increase?

Management

Chaitanya, anyone's guess, but for surely I believe that B-heavy and sugarcane juice being diverted out of sugar is the only long-term answer for sugar mills in India. As far as cane goes, cane planting, obviously, we have seen in the past, it has happened and it has gone up and come down, but I don't see too much of it happening without an act of God.

Chaitanya Shah, Analyst

All right. And sir, I would just like to squeeze in one more question. This is regarding some mills in Maharashtra selling sugar below the MSP, I mean, do you think this is a big problem and I'm not seeing any hit on your realization to that extent, but I just want to understand if it can balloon into a big problem going forward?

Management

Chaitanya, as of now we have heard of some one or two cases here or there, but government has also taken action and sent teams to actually audit and survey, if anything that has happened. But no sort of wrongdoing has been found. So if someone here or there is even trying to do it, it's very small and so we are not seeing any change, the government has clearly come out with an order that very strict actions will be taken against sugar mills, who flout the selling price of sugar.

Chaitanya Shah, Analyst

Okay. Thank you so much, sir.

Management

Thank you so much.

Operator

Thank you. The next question is from the line of Chirag Lodaya from Valuequest Investment Advisors. Please go ahead.

Chirag Lodaya, Analyst

Thank you for the opportunity. Sir, my first question is on current molasses prices, what are the current molasses prices?

Management

Current prices are hovering around INR3,000 to INR3,500 per ton right now.

Chirag Lodaya, Analyst

And what would be the price like six months back, sir?

Management

Six months back it was INR200 per ton.

Chirag Lodaya, Analyst

Okay. And second question is how much ENA we produced and what is the current ENA realization?

Management

So the ENA that we produced was not very large. It was a very small quantity of ENA that we produced. we produced about 43 lakh litres.

Chirag Lodaya, Analyst

Okay. And what would be the current ENA prices, sir?

Management

Currently ENA prices are hovering around INR30, INR31 per litre.

Chirag Lodaya, Analyst

INR30, INR31 per liter?

Management

Yeah.

Chirag Lodaya, Analyst

Okay. And cost of producing ENA would be?

Management

It varies. as I said, the cost of ENA will be approximately, say, around ethanol , so ENA will be about INR25.

Chirag Lodaya, Analyst

INR25? Okay. That's it from my side. Thank you.

Management

Thank you.

Operator

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

Sridhar Parthasarathy, Analyst

Yeah. So, I have two questions. One is, what's the outlook in terms of the sugar price, per se, going forward? Do you expect some element of firmness? And number two is, given the fact that now the other elements line of power and ethanol contributing so much into the profitability, would there be any thought process in terms of having them separate or would they continue to be part of the same company?

Management

So I'll answer your first question. On sugar price, I believe it should be within the same range of INR32, INR33 per kg. I don't believe that prices are going to firm up anything further from here, plus/minus one but I really can't say. But I think that will be the range that you can see over the next six to eight months. On the other side, no, there is no plan to hive off either of these two segments into a separate go as of now.

Sridhar Parthasarathy, Analyst

Thank you. Thank you so much.

Management

Thank you.

Operator

Thank you. The next question is from the line of Achal Lohade from JM Financial Limited. Please go ahead.

Achal Lohade, Analyst

Yeah. Thanks for the follow-up opportunity, sir. So just wanted to know the transfer pricing for C molasses, B molasses and bagasse for the year FY '19?

Management

So for the C-molasses, our transfer pricing was INR200 per ton and for B molasses it was like INR7250 per ton and for bagasse it is INR1,500 per ton of bagasse.

Achal Lohade, Analyst

Understood. And if you could help us with the yield per ton of molasses for C-based ethanol?

Management

Yes. So for C it is 220 liters per ton of molasses C, and it is 305 liters per ton of B heavy molasses.

Achal Lohade, Analyst

That's really helpful, sir. Thank you so much.

Management

Thank you.

Operator

Thank you. The next question is from the line of Yashpal Madan from MainStream Consulting. Please go ahead.

Yashpal Madan, Analyst

Hello, Mr. Goel?

Management

Yes,

Yashpal Madan, Analyst

I wanted to know, now you have been industry leader in terms of converting from B heavy this season, very few companies had put the bid. So, how had been the experience, number one? And number two, what's your plan for next sugar season? How much more you would be converting from B heavy and overall industry scenario also, how much we see will get converted from B heavy?

Management

Thank you. So our B heavy experience has been pretty fruitful, we all are happy that the sugar that we are holding is lower than the average that India is holding. As far as our future plans go, yes, we do plan to increase it from one plant that we did this year at least in three of our plants we are planning for next year, we may also do for all five. So the plans are on to at least take it up to three plants and up to a max of all five of our plants.

Even I would say that other companies are also planning the same, their new Capex is, as I said earlier, are coming up. As soon as those new plants come up, I think that you will see other companies also entering into this B heavy, because this is a plus for everybody, because in case we've seen the amount of closing stock that India will have of close to 14.5 million tons to 15 million tons will be the closing stock of sugar. And assuming next year also, even if we are to come down from 33 million tons to 28 million tons, we also still have a 2 million ton surplus. So B heavy is I think the only answer for every sugar company and for India also.

Yashpal Madan, Analyst

So do you see the next year close to 5 million ton sugar getting produced less because of this, do you see the possibility?

Management

No, not at all. So I don't think that 5 million tons because we don't have that much of capacity as of now. This year, approximately 3.5 lakh tons of sugar got diverted, next year as I said, I believe it should be about anything in the range of a minimum of 1 million ton to a maximum of 1.5 million ton.

Yashpal Madan, Analyst

That's all.

Management

Yes. See again, the capacities are coming up, but it's a gradual process, I mean, it's approximately 14 to 18 months for a new plant to come up. So there are about 35 to 40 plants, which are expected to come up over the next 2.5 years. So then perhaps in 2021, you can see this go up to about 2 million tons to 2.5 million tons. So it will be a gradual process. But I think this is a step in the right way forward that we have done. And we are going the way of Brazil. But our capacities of both sugar mill and distilleries are small. So that is why it takes a bit more time. So that is the difference that India has with Brazil.

Yashpal Madan, Analyst

Any plan for you to convert from juice also in next season?

Management

So let's see, we have already making plans for that. So, yes, we will do B heavy from all five of our plants, we will still be short of raw material. So, yes, we are also planning from sugarcane juice next year. But again, we will make our final plans only in August once the new tenders are out.

Yashpal Madan, Analyst

Yeah. Because if you do from juice also, that will be a big plus for you, the kind of capacity you're holding and that will impact your bottom line in a big way.

Management

No, no. I agree, but as I said earlier, we will not be able to use our one full plant of sugarcane juice. We will not have that much of storage capacity of juice. So that is why we all are going to be talking to the government to allow partial usage of sugarcane juice.

Yashpal Madan, Analyst

So, that they'll have to come up with a different pricing for that?

Management

Yeah. So the pricing is still the same. Partial juice is that when so ever a plant will run from juice, it will only run from juice. But allow it to run for only a period of time, not for the whole season.

Yashpal Madan, Analyst

Okay. You are saying that. Okay. Fine. Thank you. Thanks a lot and congratulations for, I think, very good results and we hope that next one or two seasons also go that well.

Management

Thank you so much, sir.

Operator

Thank you. The next question is from the line of Govind Saboo from IndiaNivesh. Please go ahead.

Govind Saboo, Analyst

Thanks for the opportunity. I just wanted to know how much sugar production did we compromise during the last year FY'19 by producing 216 lakh litres of B heavy molasses?

Management

Approximately 3 lakh quintals of sugar is what we sacrificed for B heavy.

Govind Saboo, Analyst

Okay. So despite, I mean, 3 lakh quintal of sacrifice, our inventory went up by around 1.4 lakh metric ton during the year. And now we are sitting at a pile of around 5.1 lakh metric ton of inventory. And next year, we are also assuming that cane production will increase and naturally we will be producing more sugar than what we have produced last year. So does that mean that inventory level will further go from here?

Management

Govind, see that is the whole plan, right. So our plan is to do B heavy in at least three of our plants or to perhaps all five of our plants. That is the way that we plan to manage our inventory of sugar. And that is the only way that sugar mills will be able to manage, only two way of off take, it's either you do B heavy sugarcane juice or you export sugar out, because India's demand of 26 million tons will stay in that range. So if India has that much of surplus, these are the only three avenues by which sugar stocks can come down in the country and in any company.

Govind Saboo, Analyst

Sir, I understand that, but do you think that also after diversion, the sugar stocks will reduce in next couple of years because the math doesn't favor such kind of a reduction in substantial inventory at least for next two years?

Management

I'm with you on that. I think that the sugar stocks that companies and India is holding is extremely high, so even in the next 12 months, if you believe there will be some drastic change, I don't see it happening until there is some act of

God and India's sugarcane drops down drastically. So I fully aware of this threat that we have, is sugar stocks is going to be the biggest challenge, which every company will be having and the only way to manage it over a period of time will be B heavy and exports.

Govind Saboo, Analyst

So, sir, at a micro level, how are you foreseeing an increase in sugar stock next year or some kind of inventory flush out or because what is happening at the equity shareholders, entire cash flows whatever I'm earning is getting stuck in the inventory, rather the inventory increase is much more than the cash flows with businesses earning. So we actually have to borrow money to fund that inventory. So this is the biggest challenge, which we are facing and analyzing the business and the company.

Management

You are totally right on that. I totally echo your same sentiment that you are saying, we are fully aware of this. But as long as India has a huge surplus like what we have, we all will all have to be a part of it, we manage our inventory to a certain extent vis-a-vis anybody else but overall if India has 15 million tons of stock, our stock will also be high. I mean, will also go up. Our only effort is to be far, far lower than anybody else.

Govind Saboo, Analyst

Thank you so much, sir. That is the biggest concern, I think.

Management

I agree with you my friend.

Operator

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

Sridhar Parthasarathy, Analyst

Yeah. So my question is given the cost of production and the selling price of sugar, you're not going to see much of a joy coming from that side of the business. And so therefore, is it fair to assume that the growth in the company will pretty much happen from power and ethanol and that could be anywhere give or take about 20%. Is that a fair assumption to make?

Management

Yeah. So you always see, but the only advantage that we've got is that on the sugar side, there is no loss at least. I mean, seeing the MSP of sugar, which has come up at least, otherwise with the amount of stock that India's holding, there would be a loss on that side also. So sugar even if it is break-even for us, I think that we all are very happy with that. Power and ethanol are the two segments where we see our future growth and ethanol specially. In power segment, I don't think we are going to do any much work on that side anymore. We have got sufficient capacity right now. So at Dhampur, we are not expanding that side. Ethanol is an area and alcohol is an area that we want to see, and we will be seeing growth in that over the next 12 to 18 months.

Sridhar Parthasarathy, Analyst

Okay. And the other question is you quite correctly said, this is a huge surplus which is there. And so do we see the government planning [ph] taking up a certain buffer stock. If I remember right, they put out a 3 million ton of buffer stock earlier, right. So are there groups of government taking up some of the stocks?

Management

Buffer stock is again a concept where we are holding the stock on behalf of government. The stock is not owned by them. The stock is owned by us itself. The government does not own any stock. They all just pay you for your holding cost. So the 3 million ton, whether it will be increased to 5 million ton or 6 million ton or 7 million ton, we will only know once the new government comes in place in the next one week.

Sridhar Parthasarathy, Analyst

But that still address only the holding cost per se, right, so does it be a cash flow to the extent of the holding cost deficit. Is that correct?

Management

That's right.

Sridhar Parthasarathy, Analyst

Thank you. Thank you so much.

Management

Thank you.

Operator

Thank you. The next question is from the line of Manan Shah from ASK Investments. Please go ahead.

Manan Shah, Analyst

Hello, sir. Sir, just wanted to understand what sort of regulatory risks do you foresee currently and how do you assess the willingness of the current government to implement the policies effectively for the branding initiatives?

Management

See as far as the last government goes, which was there, they are the ones who took the, I mean, they spear headed this and that is why you saw for the first time in India, B heavy and sugarcane pricing being down. Prior to this, there was no separate pricing, which had ever been done for B heavy and for sugarcane juice. The new government, once it's formed, I'm pretty sure will follow the same sort of route that the earlier one did because that is the only future for Indian sugarcane farmers. Otherwise, farmers won't get paid with the sort of inventory that sugar mills are holding. So I do hope and I do believe that this will be a policy that will be followed even in the next, I mean, for the next quite a few years.

Manan Shah, Analyst

Sir, but such policies were also announced in 2008 as well, but it didn't take off materially. So just wanted to understand what's the difference between 2008 and 2018 especially.

Management

2008 and 2018, the difference is India has not ever had such sort of sugar stocks that we all are seeing right now. Secondly, India has now become the largest producer of sugar in the world and seeing the sugarcane yields and the sugar recovery, they all have just gone up. I mean, sugar yields have gone up by almost 1.5 times. So with sugarcane becoming the best crop for a farmer and he's not willing to switch his crop to any other crop, we will have no choice but to follow the B heavy and the sugarcane route.

Manan Shah, Analyst

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

Management

Thank you.

Operator

Thank you. The next question is from the line of Chaitanya Shah from Aditya Corporation. Please go ahead.

Chaitanya Shah, Analyst

Hi, sir. Thanks for doing a follow-up. Sir, my question is regarding the sugar stocks that the mills are holding, how long do you foresee that will be carried. sorry, my first question is do you think these mills have the warehouse capacity and the financial capacity to hold stocks like these. And secondly, how long do you see them being financially viable and do you focus as seeing them, they'll start defaulting on their capital loan because of lack of cash flows and huge inventory?

Management

So, yes, warehousing is an issue which we are facing in India. As far as we go ourselves, we all had developed further capacities last year itself. We had foreseen that Indian sugar will be surplus. And we ourselves will be holding far, far more stocks. So we have sufficient storage of capacity as of now. We all are always trying to study what sort of cane is being grown, what sort of sugar we do plan to produce, what sort of sugar we can sell, what will be the export policy

So on that basis, we will be planning our own warehousing expansions. But your point is fully valid, warehousing is going to be the next big challenge for sugar mills in India. And as far as your other point goes on working capital, tough to say for others but within ourselves, we all are okay right now. So we do not see any sort of defaults happening from our side. But as far as India goes, I really won't be able to answer that.

Chaitanya Shah, Analyst

Okay. All right. And sir, can you give me some highlight about the international production situation right now and what's going on in Brazil?

Management

Yeah. With the higher prices of crude, I mean, we've seen crude prices go up. So as of now, Brazil is talking about a lower sugar than what they did even last year. There is some sort of talk that this year sugar will be somewhat balanced globally. But we are seeing global prices have come down. So, yes, even globally the prices are pretty depressed. But again, sugarcane changes so fast. I mean, what we have seen even in India and globally, how much we estimate sugar to be produced changes so fast. So still there is a global surplus. But this year, it looks to be far, far more balanced.

Chaitanya Shah, Analyst

Okay, all right. And sir, do you see a repeat of 2016/17 production in March due to talks of drought going on. I mean is there any idea that you have on that?

Management

Still early days, that is the sort of talk, exactly the same talk that you have heard we are also hearing the same thing, that quite a few districts and regions of Western part of India are seeing a major drought. How much of impact that has on cane planting, we still have to see. I mean, there are talks that Maharashtra can come down from 10.7 million tons that they produce to around 6 million tons. But again, early days, we will be able to give you some sort of data on that only I think post July.

Chaitanya Shah, Analyst

Okay, all right. And so I would like to congratulate you guys on the numbers.

Management

Thank you so much, sir.

Chaitanya Shah, Analyst

Thank you so much.

Operator

Thank you. The next question is from the line of Achal Lohade from JM Financial Limited. Please go ahead.

Achal Lohade, Analyst

Yeah. Thanks for the follow-up once again, sir. Just a clarification, I was just trying to work out these numbers, you said molasses transfer price is INR200 for C and INR 7250 rupees per ton for B. So I was just curious, are you talking about quintal or tons ?

Management

INR200 is per ton and then INR7250 is per ton.

Achal Lohade, Analyst

Okay.

Management

But we changed it to INR1,000 per ton for C heavy as of 1st of April.

Achal Lohade, Analyst

Okay.

Achal Lohade, Analyst

Right. Okay, understood. And what is the sugarcane cost for FY '19 on landed cost basis.

Management

Sugarcane cost of ours is approximately INR330 per quintal.

Achal Lohade, Analyst

INR330 per quintal? And this is after accounting for the incentive, whatever, with respect to exports and all those things?

Management

So that is separate.

Management

Yes.

Achal Lohade, Analyst

Understood. Great, sir. Thank you so much.

Management

Thank you.

Operator

Thank you. The next question is from the line of Govind Saboo from IndiaNivesh. Please go ahead.

Govind Saboo, Analyst

Sir just two follow-ups. One is that, we have increased our distillation capacity from 3 lakh LD to 4 lakh LD, so you were explaining the math, which I just missed, so we will have kept molasses to run them up to 150 days or 170 days?

Management

No, we have them for about 260 to 270 days as of now because they came up only in the last two months, right. So next we have only up till about 200 days, that's why B heavy for us will become a plus point for us that we have surplus capacity, where we can use B heavy from all five of our plants, if we will have to.

Govind Saboo, Analyst

Right. And if that partial thing is sorted out with the government?

Management

Yes, both.

Govind Saboo, Analyst

On that 4 lakh LD capacity, 200 days you'll have captive molasses, balance 100 days or 130 days, either you can buy molasses or you can use it for B Heavy right?

Management

Correct.

Govind Saboo, Analyst

Okay. So this is the flexibility, which we are having and second question is, sir, on this power tariff regulation dispute, which is going on with the government. So practically, how much reduction do you expect because our current selling price of power is around INR5.10 or INR5.20 per unit. So do you see any reduction or I mean, what is the ideal scenario?

Management

As far as the fact goes, there should not be any sort of price, which should come down, as far as the fact go. Now in case there is some negotiation, which does take place, we are also flexible. We are practical people, we can always talk about it, but if we just see real facts of the cost of baggase, heat rate, fixed cost, variable cost, there is no rationale for the prices to come down. So we are in dialog at all levels, and let's hope for us to find an answer on this.

Govind Saboo, Analyst

But, sir, more than that, with this level of profitability also, we're not able to support our inventory, our cash flows are not able to support the inventory. So this is the biggest problem I think.

Management

Correct. I mean, if one of the most efficient companies in India will have a problem, you can just think about what will happen to all the other sugar mills in UP.

Govind Saboo, Analyst

Exactly and 70% are inefficient mills in India. I mean, only 30% are as efficient and other large players, which we talked to generally. But there is a whole lot of inefficient players also.

Management

Exactly. government has to look at it from everyone's perspective and that is what we all are hopeful of right now.

Govind Saboo, Analyst

Okay, sir. Thank you so much.

Management

Thank you.

Operator

Thank you. The next question is from the line of the Ritika Agarwal from QUEST investments. Please go ahead.

Ritika Agarwal, Analyst

Hello. Thank you for the follow-up question, sir. Sir, my question was what is the difference between plant producing B heavy and C heavy ethanol?

Management

No, plants are the same. So from the same plant, you can do B heavy, C heavy, all sugar, sugarcane juice. So as far as the plant is configured, ratio doesn't really change.

Ritika Agarwal, Analyst

Is there any extra Capex for a B or a sugarcane juice plant?

Management

No. For B heavy, there is no extra Capex on C heavy, the only extra Capex, which will have to be done for the storage of cane juice because cane juice is a far, far higher volume than doing C or B heavy. So that is why the only Capex, which will happen is for the storage of the sugarcane juice. But on the plant side, there is no change.

Ritika Agarwal, Analyst

Okay, sir. Sir and second question is on, we're saying that for the balance apart from that 200 days for which we'll have C molasses, we'll either buy C heavy molasses or produce B heavy ethanol from our sugar sacrifice. So out of the two, which one will be more beneficial for the company to do?

Management

So again, depending on what will be the pricing, if the pricing is the same and if India does have again a huge surplus of sugar, B heavy is for surely a benefit for us because that much of lower sugar I will have in stocks for myself, and I can sell month-on-month to the OMCs, the same ethanol that I produce. So my holding cost of sugar will come down drastically, so B heavy is going to be the plus point if there is a surplus of sugar in the next couple of years. So for us at Dhampur, B heavy is the answer.

Ritika Agarwal, Analyst

Okay, sir. Sir, and do we see any challenge of reduction in the ethanol prices going forward?

Management

No. So till the time we do not see cane price coming down, we do not believe that will come down.

Ritika Agarwal, Analyst

Okay. Okay, sir. Thank you so much.

Management

Thank you.

Operator

Thank you. The next question is from the line of Yashpal Madan from MainStream Consulting. Please go ahead.

Yashpal Madan, Analyst

Are you planning to run distillery this year for 330 days or 350 days?

Management

So our plan is for 350 days as of now, but 330 is the least that we want to run for depending on when we start our sugar mills, we all can run them for 350 days also.

Yashpal Madan, Analyst

It means you must be buying this year also molasses from the market.

Management

So we will have to start buying at some point of time. As of now, we have sufficient stocks within our own sugar mills. So we will start buying as soon as we use a part of our own captive first, then we will start buying from outside. But there is a plan to buy a small amount this year.

Yashpal Madan, Analyst

Thank you.

Operator

Thank you. The next question is from the line of Ashish Motwani from investor. Please go ahead.

Ashish Motwani, Analyst

Yeah, hi. I have two question. One was on the subsidies that are being extended by the state and central government, so what is the validity for that and if there's any other talks to extend those? And two is regarding the 2004/05 scheme of the UP state government. So some subsidies were to be received from that as per the ruling of the Supreme Court, so is there any update on that matter?

Management

So, I mean, I will take your last question first on the 2004. Yes, Supreme Court has already ruled in our favour, but there is no real time line when we will get that money from the government. So we are not taking it into account as

of now, we are applying for it, we are putting our claims with the UP government, but what sort of time lines, there is no answer on that. Sorry, what was your first question?

Ashish Motwani, Analyst

Okay. can you quantify an amount there of the subsidies to be received?

Management

So that is still being made, but from our side, seeing it's a pretty complex structure that had been formed and for so many as far as Dhampur goes, if we take our capital plus everything else, we are expecting it to be around INR150 crores to INR200 crores.

Ashish Motwani, Analyst

Okay. Fair enough. The second question was in terms of the state and central subsidies that have been extended, various schemes are there, so what is the validity of those and do think that something else is coming out from the government?

Management

So from the state, it was only a soft loan allowed for sugar mills for cane price payment, Dhampur has already availed that loan, the loan is basically that the state will pay the interest, I mean, we have to pay part of interest , the balance interest will be paid by the state. So that is the only thing that we got from the state, so there isn't anything else pending on the state side. As far as the centre goes, they all had come up with various things that a company had to comply with for us to be able to get the production subsidy. Dhampur has already complied with all of them and our claims are being filed. So we are hopeful that by July, we will get our money out of the centre also.

Ashish Motwani, Analyst

Okay. And those have not been accounted for or they have been already --?

Management

Partially, we have for up till the 31st March, what was the cane crushed, we have done that, but the balance will be done in the June quarter.

Ashish Motwani, Analyst

Okay. And these subsidies are applicable till even September 30.

Management

Correct. But as far as Dhampur goes, all our exports have been done as of 30th of April.

Ashish Motwani, Analyst

Okay. Thank you.

Operator

Thank you very much. Mr. Motwani, do you have any follow-up questions?

Ashish Motwani, Analyst

No, that's it. Thank you.

Operator

Thank you. As there are no further questions, I will now hand the conference over to the management for closing comments.

Management

Thank you. I would like to thank all of you for joining our conference call. We will be happy to answer any other questions that you may have at any point of time. Please feel free to contact us either by phone or by email. You can also see our website dhampur.com and post any queries that you may have. Thank you so much once again.

Management

Thank you so much.

Operator

Thank you very much. On behalf of Prabhudas Lilladher Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities.