



Dhampur Sugar Mills Limited

Q1 FY19 Earnings Conference Call - 08th August 2018

Mr. Prashant Biyani - Prahudas Lilladher

Hello, everyone, on behalf of Prabhudas Lilladher I welcome you all to the Q1 FY'19 results earnings call of Dhampur Sugar Mills. I would thank the management of Dhampur Sugar for taking the time out for today's concall. From the management side we have the MD, Mr. Gaurav Goel, the CFO, Mr. Nalin Gupta, Chief GM Finance, Mr. Vineet Gupta and GM Finance, Mr. Akshat Kapoor. I would request the management to discuss about the company's results and key industry highlights for the first quarter. And then we will start with the Q&A. Before we begin I would like to mention that certain statements in this call would be forward looking in nature and are subject to risk and uncertainties which would cause actual results to differ materially from those anticipated. Such statements are based on management's belief as well as assumptions made by the information currently available to the management. I would like to hand over the call to the management now. Thank you, and over to you, sir.

Mr. Gaurav Goel – Managing Director, Dhampur Sugar Mills Limited

Good afternoon and a very warm welcome to you all at Dhampur's Q1 FY'19 earnings call. India produced a total of 32.2 million tons of sugar for the sugar year 17-18. Next sugar year 18-19, India is expected to produce 35-35.5 million tons. Uttar Pradesh has produced an estimate of 12 million tons of sugar as against 8.77 million tons last year. Sugar prices in India has dipped to a low of 26 per kg in June and are presently around 32 per kg ex-mill price. On the sugar crushing side, few of our sugar plants crushed sugarcane till middle of May. Cane crushing during Q1 FY'19 stood at 13.24 lakh tons against 5.40 lakh tons last year which is an increase of 145% of cane crushed vis-à-vis last period. Total cane crushed during sugar season '17-18 increased by 30% to 74.05 lakh tons as against 56.9 lakh tons last season. Sugar that we produced this year increased by 34% to 8.41 lakh tons as compared to 6.26 lakh tons last season. Recovery of sugar also improved to 11.36% from 11.01% last season. Crushing of cane increased mainly due to a new variety of cane which has come in the state of Uttar Pradesh and also because of the cane development work done by the company. Overall even though our sugar results have been subdued but our earnings from power and distillery have improved. There was a decline in sugar prices from Rs 36.3 per kg in Q1 FY'18 to Rs. 28.11 per kg in Q1 FY'19. The total inventory as of 30th June 2018 stood at 3.55 lakh tons of sugar which has been valued at an average cost of 29 per kg. Part of the sugar losses were offset by upward revision of sugar stock prices. During the quarter ended 30th June 2018, Dhampur in its power segment achieved higher power

generation of 19.76 crores units as against 10.89 crore units corresponding period last year. Our total exported power stands at 11.61 crore units against 7.28 crores units last year. The average price of power for the quarter stands at Rs. 5.22 per unit. On the distillery segment, the company sold 221.38 lakh bulk litres of Ethanol/RS/ENA at an average net price of Rs. 39.49 per litre during this quarter. The company also sold 73.5 lakh kg of chemicals at an average price of 64.85 per kg. The performance of this division improved mainly due to the lower input costs and higher sales volume. Company has also made repayment of long term loans of Rs. 20.68 crores during this quarter, the company availed term loan of Rs. 5.43 crores during the same period. The long term debt stands at Rs. 483 crores as of 30th June 2018.

I would now like to hand over to Mr. Nalin Gupta to take you through the numbers for Q1 FY'19. Over to you.

Mr. Nalin Gupta – CFO, Dhampur Sugar Mills Limited

Good afternoon everyone. Let me take you through the financial numbers on the broader level. Our total revenues for this quarter stood at Rs.734.4 crores as compared to Rs.894.3 crores in the same period last year. The reduction in turnover is mainly due to the lower sugar sales realization which stood at Rs.28.11 per kg this quarter as against Rs.36.3 kg in the same period last year. EBITDA for this quarter stood at Rs.93.5 crores during this quarter against Rs. 144 crores in Q1 FY18. PBT during this quarter stood at Rs.48.7 crores as compared to Rs. 86.8 crores in corresponding period last year. Profit after tax stood at Rs. 31.66 crores as against Rs.62.63 crores in the same period last year.

If we see segment wise performance, during this quarter sugar division reported revenues of Rs.591 crores during this quarter as compared to Rs.782.6 crores in the same period last year. Lower revenues from this segment are mainly due to lower sugar realization. Loss at EBIT level stood at Rs. 26.25 crores as compared to profit of Rs.101.07 crores in the same period last year. Co-generation business continued to perform excellently and has complemented positively to our earnings performance. Power segment contributed 16% to the total revenues of the company. Revenue from power segment stood at Rs. 147.92 crores as compared to Rs.78.71 crores in the corresponding quarter last year. Power segment witnessed improvement of 88% in revenues. PBIT for the quarter almost doubled at Rs. 60.15 crores as compared to Rs.29.37 crores in corresponding quarter last year. Ethanol and chemical segment again continues to improve regularly. Revenues from this segment for this quarter stood at Rs.137.7 crores last year as against Rs.112.79 crores revenue in the corresponding quarter last year. PBIT during this quarter stood at Rs.55.1 crores against profit of Rs.10.3 crores in corresponding quarter last year. So these are the numbers on the broader levels.

I hand over now and the management would like to answer your queries if you have any. Thank you.

Moderator

Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on the touch tone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. To ask a question please press * then 1.

The first question is from the line of Nikhil Vaishnav from VD Investments, please go ahead.

Mr. Nikhil Vaishnav – VD Investments

Thanks for the opportunity. I would like to ask you a question about how much growth you see in top line in FY'19 and what kind of margins you look for FY'19.

Management, Dhampur Sugar Mills Ltd

As of now as I said in my opening remarks India is expected to produce around 35 million tons in this coming year. Even the cane growth and the rainfall which we have seen in the northern parts have been excellent. So overall we will crush higher than what we did this year. As far as your other point goes on sales growth, we aren't very sure about the sales growth because we know that the Government of India has fixed an MSP for sugar but with that they have also come out with monthly release system. So we do believe that our sales in the next three quarters will be lower than what they were last year. So sales will get impacted on the side of sugar. But on the side of our ethanol we all do believe our sales will grow. The basic prices have been increased for next year to 43.7 per litre, tender is expected to be out by mid of August so I will be able to shed some more light on that in our next call.

Mr. Nikhil Vaishnav – VD Investments

Okay, so any margins you are looking for FY'19?

Management, Dhampur Sugar Mills Ltd

See as of now vis-à-vis the price of sugar which is prevalent, sugar we all do believe should just about breakeven but our profit from power and ethanol should improve so that is why our margins I believe should stay the same. I don't believe any margins will go up next year.

Mr. Nikhil Vaishnav – VD Investments

Okay, and secondly how much debt repayment in FY'19 you see, like we have reduced debt about 440 crore in FY'18, and in FY'19 how much debt repayment you see.

Management, Dhampur Sugar Mills Ltd

We all are seeing in the range of 70 to 100 crores is the long term debt that we plan to pay during this next nine months.

Mr. Nikhil Vaishnav – VD Investments

Okay, and how much the rate of interest for this you will pay?

Management, Dhampur Sugar Mills Ltd

Our average is about 8.35%.

Mr. Nikhil Vaishnav - VD Investments

Okay, no issues. And how much sugar is sold in current quarter and Q4 FY'18, and Q1 FY'19, can you share some detail on this.

Management, Dhampur Sugar Mills Ltd

Sure, so during this quarter we all sold 1.81 lakh tons of sugar at an average price as we said at 28.11 per kg. Last year in Q1FY18 we had sold 1.88 lakh tons of sugar at an average price of 36.3 per kg.

Mr. Nikhil Vaishnav – VD Investments

And Q1 FY'18?

Management, Dhampur Sugar Mills Ltd

Q1 FY'18 we all sold 1.88 lakh tons at an average price of 36.3. This year we have sold 1.81 lakh tons at an average price of 28.11.

Mr Nikhil Vaishnav – VD Investments

And what is our expansion planning in FY'19, and how much amount you'll spend for capex in FY'19.

Management, Dhampur Sugar Mills Ltd

So the only capex which has been planned is the expansion of the distillery, right now we are at 300 KLPD, we are expanding at 100 KLPD, the work is on and the work should finish by end October 2018, the total capex in that is around 40 crores.

Mr. Nikhil Vaishnav – VD Investments

Okay, only 40 crores. And lastly what is the risk the company is currently facing right now?

Management, Dhampur Sugar Mills Ltd

No, the only risk or the only thing for the whole sugar is the amount of sugar stocks that companies will be carrying forward. That is why it is extremely prudent for Government to come out with a new MIEQ Scheme for export of sugar of at least 60 lakh tons so that sugar mills aren't saddled with so much of stock. So I see sugar stock to be the only challenge and the biggest risk right now.

Mr. Nikhil Vashnav – VD Investments

Okay, that's all from my end, thank you.

Management, Dhampur Sugar Mills Ltd

Thank you so much.

Moderator

Thank you. The next question is from the line of Sagar Shah from KSA Securities. Please go ahead.

Mr. Sagar Shah – KSA Securities

Good afternoon, sir.

Management, Dhampur Sugar Mills Ltd

Afternoon, Sagar.

Mr. Sagar Shah – KSA Securities

Sorry, if I missed out on the opening comments but I wanted to have something like the volume figures for the ethanol actually that you have sold something like in this quarter.

Management, Dhampur Sugar Mills Ltd

Yeah. So, our total sales on that side is 221 lakh bulk litres during this quarter. And on the chemical side we have sold 73.5 lakh kgs of chemicals.

Mr. Sagar Shah – KSA Securities

Okay, something like, so what is the level of inventory that currently the company is handling of sugar actually as of date.

Management, Dhampur Sugar Mills Ltd

Sugar as of 30th June our stock was 3.55 lakh tons.

Mr. Sagar Shah – KSA Securities

Okay, 3.55 lakh tons. So something, so it is an excess, okay. So something like my broad question is you said that the overall something like the production in the next year it would be around 35 million tons, right.

Management, Dhampur Sugar Mills Ltd

Yes.

Mr. Sagar Shah – KSA Securities

So what is the demand, sir, of the industry actually as a whole, if this is the production for the industry then?

Management, Dhampur Sugar Mills Ltd

See, as of now if you really see the offtake for 17-18 the offtake is expected to be around 25.5 million tons, for FY'19 offtake is expected to be around 26 million tons. That means that this year we have a surplus of close to 7 million tons and next year we will have about 9 million tons of surplus, so that is 16 million tons. And our opening stock last year was 4 million tons. So the total stock that India is seeing at the end of 30/9/2019 is 20 million tons of sugar, which is almost close to 9 months of offtake. This is a real challenge and India does need to export and a large part has to be done out of raw sugar. So sugar export policy is expected to be out in the next two to three weeks.

Mr. Sagar Shah – KSA Securities

The new sugar policy you are saying.

Management, Dhampur Sugar Mills Ltd

Yes, on export.

Mr. Sagar Shah – KSA Securities

Currently 2 million tons is being done, right.

Management, Dhampur Sugar Mills Ltd

Yes, correct, so 2 million tons of MIEQ was done in early May but up till 30th of July only about 3.5 lakh tons has gone out.

Mr. Sagar Shah – KSA Securities

Oh, any reason, sir, why it has not still gone out, because of low prices abroad.

Management, Dhampur Sugar Mills Ltd

No, I think the pricing isn't really a factor, but globally most of the sugar which is bought is raw sugar. Because the export was done in May by that point in time all sugar mills had closed down, so there is no raw sugar with us. So this is one of the main reasons that's why it is very imperative for us that we all start to produce raw from day one especially in the western and southern parts of India from where the major exports will happen and that is how we can export 60 lakh tons next year.

Mr. Sagar Shah – KSA Securities

Okay, sir, my next question is on something like on the molasses front actually from which actually we provide the distillery ethanol. So my question is something like do we produce the B grade molasses or C grade molasses.

Management, Dhampur Sugar Mills Ltd

As of now India only does C grade, the government has come out with a new norm in which you can also use B heavy or you can also use sugarcane juice. But presently everybody only uses C heavy. The biggest challenge and it is a great idea for the future exactly what is done in the other parts of the world, mainly Brazil, where you can make lesser amount of sugar and more amount of alcohol if you use B heavy because it is richer in sugar. But in India right now the capacity isn't there, so that's why also come out with a new loan, I mean they will give you a subsidy on interest for expansion in distillery. But it will take two to five years for it to really take place where we can use a large amount of B heavy that will bring down the total sugar that we make in India.

Mr. Sagar Shah – KSA Securities

Oh, so something like to make from B molasses is not something like possible in the next five years you say.

Management, Dhampur Sugar Mills Ltd

No, it is not, at least 12 months or a very small amount will go into B heavy this year, I don't think it will be more than 3 lakh tons of sugar.

Mr. Sagar Shah – KSA Securities

So something like the another alternative actually to move away from the sugar distillery to ethanol, one alternative is there to move from C grade molasses to convert into ethanol, right.

Management, Dhampur Sugar Mills Ltd

Yea, from C grade you move to B, so from C grade which is done right now you move to B grade. So in B grade the yield to alcohol is higher so with C grade you get a yield of around 220 litres per ton while with B grade you get an average yield of 305 to 310 litres.

Mr. Sagar Shah – KSA Securities

Okay, so something like going ahead because as you only said there will be 20 million tons, as for Dhampur Sugar also because Dhampur is a strong holder in this industry so you might also be facing some problem of the inventory, so going ahead you will be also focusing on ethanol, more on ethanol?

Management, Dhampur Sugar Mills Ltd

That is the plan, that is why we are also expanding this year from 300 KLPD to 400 KLPD and seeing how the tender will take place, right now what will be the exact scope of B heavy and how will that be done, we will think of expanding it further next year.

Mr. Sagar Shah – KSA Securities

Okay, thank you, sir, all the best.

Management, Dhampur Sugar Mills Ltd

Thank you so much.

Moderator

Thank you, a reminder to the participants to ask a question please press * then 1. The next question is from the line of Anand Dubey from VD Investments, please go ahead.

Mr. Anand Dubey – VD Investments

Hello, sir.

Management, Dhampur Sugar Mills Ltd

Yes, Anand, hi.

Mr. Anand Dubey – VD Investments

Sir, I just wanted to know about how the UP government, UP state and Maharashtra state doing because UP in the last two to three years the production of sugarcane is very good. How do you see it this year, how is the production, because the monsoon is very good in terms of the sugarcane business.

Management, Dhampur Sugar Mills Ltd

No, surely the rainfall has been very, very good in all parts of India, that's why from 32 million tons that we have done this year, we believe it will be 35 million tons next year. Cane has been excellent, cane has grown really well in all parts of India now as of the latest reports. So yes, cane crop looks extremely healthy from all parts of India right now.

Mr. Anand Dubey – VD Investments

What about Karnataka and Tamil Nadu, sir?

Management, Dhampur Sugar Mills Ltd

Only in Tamil Nadu the cane is still on the lower side, Tamil Nadu has been under a huge amount of drought, so that is the only state which won't grow as much but even there the early reports do say that they will higher than what they were this year. So this year they made about I think 8 lakh tons. They should go to about 10 lakh tons next year.

Mr. Anand Dubey – VD Investments

Okay, sir. What is our effective tax rate for FY'19?

Management, Dhampur Sugar Mills Ltd

It will be MAT, it will be MAT only for cash flow.

Mr. Anand Dubey – VD Investments

MAT only, okay, thank you so much.

Management, Dhampur Sugar Mills Ltd

Yes.

Moderator

Thank you very much. The next question is from the line Jagpreet Singh, an individual investor. Please go ahead.

Mr. Jagpreet Singh – Individual Investor

Good afternoon, you gave a figure of 598 crores sales at 28.11 this comes out to be 21 lakh quintals and you are mentioning 18 lakhs, where is the dichotomy?

Management, Dhampur Sugar Mills Ltd

Because it also includes sales of bi-products which is sold from sugar to the other segments. So it is not just sale of sugar, it is the other two bi-products also, bagasse and molasses which is sold, if you add them it will come to that.

Mr. Jagpreet Singh – Individual Investor

So the inventory which you were holding as of 31st March you would have sold it at 28.11, and I believe you would have made Re. 1 profit on that, that comes out to be 20 crore rupees of profit for sugar, plus 1 crore rupees from the notes to accounts where you have mentioned the changes in inventory and profitability, 36 minus 35 something which you have mentioned in the notes to account. And 23 crores rupees of loss in the exports segment, right. So that overall should still give you a breakeven at the PBIT level in the sugar segment, but in the sugar segment you are showing a loss, how is it?

Management, Dhampur Sugar Mills Ltd

So, Jagpreetji, there are a lot of other expenses which are not loaded on the cost of production. One change in the quarter is that the off season expenses of 7.63 crores have not been deferred, and apart from that there are a lot of expenses like cane development expenses, like selling expenses which are huge, so they are not loaded on the costs. So they are part of this rest of the losses.

Mr. Jagpreet Singh – Individual Investor

amount, 25-26 crores is it?

Management, Dhampur Sugar Mills Ltd

The unallocable that amount amounts to 24 crores including 7.63 crores off season expenses which we have not deferred this quarter.

Mr. Jagpreet Singh – Individual investor

Otherwise you used to defer this amount, 7.63.

Management, Dhampur Sugar Mills Ltd

Right.

Mr. Jagpreet Singh – Individual investor

And how much is the cane development expense?

Management, Dhampur Sugar Mills Ltd

That is around in the range of 2 to 2.5 crores in this quarter.

Mr. Jagpreet Singh – Individual investor

Okay, that comes around to be 10 crores.

Management, Dhampur Sugar Mills Ltd

Only 2 to 2.5 crores this quarter. So they are selling expenses of around Rs 5 crores, there is off season expenses which we have not deferred 7.63 crores, and there are a lot of other expenses like part of admin salary is not loaded.

Mr. Jagpreet Singh – Individual investor

So apart from this off season expenses which you have not deferred, rest of the expenses are a part of quarter one every year, is it?

Management, Dhampur Sugar Mills Ltd

Every year, yes, that's correct, every year.

Mr. Jagpreet Singh – Individual investor

Okay, and as far as your capex of 40 crores is concerned, would this capacity, distillery capacity be operational in the coming sugar season.

Management, Dhampur Sugar Mills Ltd

Yes, it will be, we all expect to finish this 100 KL expansion by 30/10.

Mr. Jagpreet Singh – Individual investor

Can we go down that B heavy molasses route on this capex only?

Management, Dhampur Sugar Mills Ltd

No, we can go to B heavy even without the capex, the only point is that we as a company do plan to use a bit of B heavy this year, we use our full capex and then we also buy from outside, so we will do some B heavy molasses this year

Mr. Jagpreet Singh – Individual investor

Okay, and how much ethanol volumes are you expecting in quarter two of financial year.

Management, Dhampur Sugar Mills Ltd

Quarter two should also be the same as quarter one, so as I said we all sold to OMC, if you see the whole RS/ENA which was at about 220 lakh litres we do believe it to be at a same sort of level for Q2 also.

Mr. Jagpreet Singh – Individual investor

220 lakh litres.

Management, Dhampur Sugar Mills Ltd

Yeah.

Mr. Jagpreet Singh – Individual investor

Okay, and power, what about power, will we be able to produce power in this or no?

Management, Dhampur Sugar Mills Ltd

No, the power sales will be very, very limited for Q2.

Mr. Jagpreet Singh – Individual investor

Alright, thank you very much.

Management, Dhampur Sugar Mills Ltd

Thank you.

Moderator

Thank you. Participants who would like to ask questions please press * then 1. The next question from the line of Yashpal Madan an investor. Please go ahead.

Mr. Yashpal Madan – Individual Investor

Hello, Mr. Goel.

Management, Dhampur Sugar Mills Ltd

Yes, how are you?

Mr. Yashpal Madan –Individual Investor

Absolutely fine, what about you.

Management, Dhampur Sugar Mills Ltd

All well, thank you so much.

Mr. Yashpal Madan – Investor

Okay. I think things are turning around it looks like, no?

Management, Dhampur Sugar Mills Ltd

Things are turning in the sense that yes, sugar prices have surely become slightly more stable after they have come out with a quota system. But as I said earlier also the biggest challenge that we see is the huge amount of sugar stocks that companies will be carrying at the end of next year.

Mr. Yashpal Madan – Individual Investor

You mentioned that there is no raw sugar stock available in the industry which can't be exported, then why you people have booked the export loss basically. I have seen most of the companies have booked loss already although you haven't exported it.

Management, Dhampur Sugar Mills Ltd

No, we have already sold our license to a third party and we still have got two months left for exports to happen. So there is, why this export is lower than what it had to be is because right now we are only selling white sugar. And white availability which we have to get from the western part of India has come down because sugar prices have slightly gone up. But we still believe that we will be able to, that our quota that we have sold to a third party, he will be able to export it out over the next two months.

Mr. Yashpal Madan – Investor

The sense which I am getting from the industry is that industry may not be able to export 3 million tons which government has mandated, right, what do you say.

Management, Dhampur Sugar Mills Ltd

No, for sure you see the 2 million tons mandate I don't feel it will happen. As I said up till 31st of July we have exported 3.5 lakh tons by 30/9 I hope that about 2 to 2.5 lakh tons more moves out of India.

Mr. Yashpal Madan – Individual Investor

Finally when export will not happen then what was the hurry to book the loss for exports?

Management, Dhampur Sugar Mills Ltd

No, it is basically because we sold our license in June that is why as prudence because we know that if exports will happen that will be a loss on the books that is why because the contract was signed in June, that is why we booked a loss in the same quarter.

Moderator

Excuse me, this is the operator here, participants please stay connected, the line for the management has dropped. Ladies and gentlemen thank you for patiently waiting, the lines of the management is reconnected. Sir, you may go ahead.

Management

Yeah, so basically we have sold, because we had sold our quota at a loss in June that is why as prudence we all have taken the loss in June itself.

Moderator

Thank you. Participants who would like to ask questions please press * then 1. We take the follow up from the line of Yashpal Madan, an individual investor. Please go ahead.

Mr. Yashpal Madan – Individual Investor

Sorry, line got dropped and it is connected again. Mr. Goel, can you hear me?

Management, Dhampur Sugar Mills Ltd

Yeah I can.

Mr. Yashpal Madan – Individual Investor

Now let's say if the industry doesn't export complete quantity then you will reverse the losses?

Management, Dhampur Sugar Mills Ltd

See, of course, in case the third party to which I sold my quota, in case they are not able to export by 30/9, then 30/9 we will have to reverse back this loss.

Mr. Yashpal Madan – Individual Investor

And you have booked the complete whatever quota you were supposed to export, you had booked the complete loss.

Management, Dhampur Sugar Mills Ltd

No, our total was 45,000 tons, out of that as of now we have sold 30000 tons, so we have booked a loss only of 30,000 tons right now.

Mr. Yashpal Madan – Individual Investor

How much that amount comes to, the loss amount?

Management, Dhampur Sugar Mills Ltd

It is Rs 23.5 crores.

Mr. Yashpal Madan – Individual Investor

23.5 crores, okay. And what is the situation of molasses stock at this point in time. How much stock do you have?

Management, Dhampur Sugar Mills Ltd

There is, how much stock Dhampur has or as such India?

Mr. Yashpal Madan – Individual Investor

No, Dhampur, Dhampur. India has abundant.

Management, Dhampur Sugar Mills Ltd

Even Dhampur has got sufficient stocks right now to run through the whole season.

Mr. Yashpal Madan – Individual Investor

So you are saying this whole quarter there will be production of ethanol.

Management, Dhampur Sugar Mills Ltd

Yes, we are not going to close down our plant, we will be carrying on throughout, we have got sufficient stocks in hand.

Mr. Yashpal Madan – Individual Investor

And what about power, bagasse?

Management, Dhampur Sugar Mills Ltd

Bagasse also we have but we will not be exporting too much because we are not buying bagasse from outside. So the power sales will be low for Q2.

Mr. Yashpal Madan – Individual Investor

Okay, but ethanol will be on full capacity.

Management, Dhampur Sugar Mills Ltd

Full capacity, yes.

Mr. Yashpal Madan – Individual Investor

Now with your enhanced capacity how much volume you are expecting in this financial year, ethanol volume.

Management, Dhampur Sugar Mills Ltd

So our total capacity will become around 13 to 14 crore litres is what we have planned to produce next year, out of that ethanol we plan to give about 9 to 10 crore litres is what we plan to tender with the OMCs.

Mr. Yashpal Madan – Individual Investor

9 to 10 crore litres. 3 to 4 crore litres will remain stock with you basically.

Management, Dhampur Sugar Mills Ltd

No, it won't be stock it will be basically will do RS/ENA and chemicals, so we also use that, it is basically because the issues of supplies are still there with OMC so we do not want to commit our total quantity to the OMCs. We want to also have a second option for a small amount.

Mr. Yashpal Madan – Individual Investor

So on the higher side around 10 crore litres you are expecting to save basically ethanol.

Management, Dhampur Sugar Mills Ltd

Correct.

Mr. Yashpal Madan – Individual Investor

Versus around 8 crores this year?

Management, Dhampur Sugar Mills Ltd

This year it will be around, see about 4 months are still left so it should be in the range of 7.5 to 8 crores.

Mr. Yashpal Madan – Individual Investor

Sorry, sorry, come again.

Management, Dhampur Sugar Mills Ltd

7.5 to 8 is what this year we will supply to OMCs which next year we want to take it up to 10 crores.

Mr. Yashpal Madan – Individual Investor

Right, right and would there be any enhancement in power capacity next year.

Management, Dhampur Sugar Mills Ltd

No, we are not enhancing power at all at this point of time. Power will only expand vis-à-vis the number of days so depending on the sugar days which we will crush next year that will be the only enhanced power supply which can happen.

Mr. Yashpal Madan – Individual Investor

If you crush more basically then you will have more bagasse to produce?

Management, Dhampur Sugar Mills Ltd

Correct, and also because you will run for more amount of days, so automatically your power exported will be higher.

Mr. Yashpal Madan – Individual investor

Right, right. Now coming to sugar which is the biggest worry, so if you can just advice us on how you are looking at next sugar season coming up, the MSP has to be announced and what are the scenarios building up which will give us some sense in this financial year some kind of profitability is expected for sugar or we just assume there is a very less chance of profitability.

Management, Dhampur Sugar Mills Ltd

See on the sugar side I will not worry as much about profit because you know MSP being fixed and with quota coming out every month, sugar prices will stay stable. The issue is as I said earlier the amount of sugar stocks which will be with sugar mills that is the main worry

which like I see even for ourselves. As I have said earlier almost 20 million tons of sugar stock will be there at the end of next year. Even if we export, and that is why export is most important right now, we need to export at least 6 million tons out of that. So that at the end of 30/9/2019 India's sugar stock will be at about 14 million tons. So sugar stock is the only worrying factor right now.

Mr. Yashpal Madan – Individual Investor

See, definitely there are two solutions, either export or like how they have come up with the retention scheme that India stocks the sugar, then wait for when any sugar seasons goes bad and that can be utilized basically, so what else can be done.

Management, Dhampur Sugar Mills Ltd

No, the other thing is what has already been said is on B heavy molasses where we start to produce lower amount of sugar and we basically send more sugar into ethanol. So as of now with C heavy molasses we get a yield of 220 litres per ton and with B heavy we will get a yield of around 305 to 310 litres, but we will lose sugar of about 1.5 percent in that process. So this is the only future for India where we divert sugar into ethanol and about 4 to 5 million tons is the target that we want to achieve in the next 3 to 5 years.

Mr. Yashpal Madan – Individual Investor

Yeah, but in the coming sugar season it will not be of use, right.

Management, Dhampur Sugar Mills Ltd

Yeah, it won't be of any use next year I mean this year, as I said about 3 lakh tons is the maximum amount I see sugar coming less, but that is not of any real value.

Mr. Yashpal Madan – Individual Investor

Absolutely. So it means on sugar front still there the worries continue.

Management, Dhampur Sugar Mills Ltd

Yes.

Mr Yashpal Madan – Individual Investor

And one final question, that there is a lot of news coming up that UP government may support with some kind of subsidy for this sugar season, do you see the possibility?

Management, Dhampur Sugar Mills Ltd

I for surely see it because that is the need of the hour, UP has the highest cane price arrear as of now and with the expected sugar that we produce next year arrears are only bound to increase, so I see no choice and we do hope that UP will give a good amount to the cane farmers for clearance of dues.

Mr. Yashpal Madan – Individual Investor

So that can be Rs. 40 to 50 per quintal, can be that high?

Management, Dhampur Sugar Mills Ltd

I will not like to put a number but that is the demand that we will have put in front of the government, it is for 40 to be paid straight to the farmers.

Mr. Yashpal Madan – Individual Investor

I believe there was some meeting this week also with the government, right?

Management, Dhampur Sugar Mills Ltd

Meetings have been on for the last three months, almost every week and that will continue to happen.

Mr. Yashpal Madan – Individual Investor

Okay, thanks a lot, Mr. Goel.

Management, Dhampur Sugar Mills Ltd

Thank you so much.

Moderator

Thank you. The next question is from the line of Anand Dubey from VD Investments, please go ahead.

Mr. Anand Dubey – VD Investments

Okay, hello. I just want to know what about the ethanol prices for next three quarters, how do you see the growth perspective on ethanol prices, sir.

Management, Dhampur Sugar Mills Ltd

See the ethanol price has been fixed as of now. There was a tender which came out last year, it is 30/11, so that tender expires on 30/11. They are coming out with a new tender, the expected date of that is 10th of August in which the price of C heavy has been fixed at 43.7

and of B heavy has been fixed at 47.49. So the prices have been increased. So obviously we will be tendering and we will get better margins in that next year. But the new tender will be effective only from 1/12/2019.

Mr. Anand Dubey – VD Investments

Okay, sir, sir how do you see the growth prospects in our segment?

Management, Dhampur Sugar Mills Ltd

On the power side we have no real plans of expansion on that. It is only the extra amount of sugar days that we crush and because we will be crushing more canes this year than even what we did last year so that will help us get more bagasse and that will be for, and that will be used only for power. So in that way power exports will increase next year.

Mr. Anand Dubey – VD Investments

Sir, what could be the rough figure, can you give me that?

Management, Dhampur Sugar Mills Ltd

You know it is hard to say right now, it is still very early days, but about 10 to 15% higher power is what you can expect next year.

Mr. Anand Dubey – VD Investments

Okay, sir, thank you so much.

Moderator

Thank you. The next question is from the line of Jagpreet Singh, an individual investor, please go ahead.

Mr. Jagpreet Singh – Individual Investor

You sold around 18 lakhs bags this quarter, in this Q2 do you expect to sell similar quantity?

Management, Dhampur Sugar Mills Ltd

No, I surely don't think that the quantity will be that large as 18 lakh tons, it will surely will be lower.

Mr. Jagpreet Singh – Individual Investor

How much would it be?

Management, Dhampur Sugar Mills Ltd

Still not sure about my quota for next month, but it should be in the range of 12 to 13 lakh bags.

Mr. Jagpreet Singh – Individual Investor

Okay, and current price is 33, right?

Management, Dhampur Sugar Mills Ltd

Current prices are about Rs 33/kg, it is the current price.

Mr. Jagpreet Singh – Individual Investor

33, so we would be making like on a PBIT level we should be making 50 crores profit in the sugar segment, right?

Management, Dhampur Sugar Mills Ltd

Yeah, less some expenses as what we explained earlier.

Mr. Jagapreet Singh – Individual Investor

Expenses have already been written down in Q1, right?

Management, Dhampur Sugar Mills Ltd

No, but then expenses also happen in Q2, because our factories are still under repairs so those expenses will still come in Q2.

Mr. Jagpreet Singh – Individual Investor

How much will it be?

Management, Dhampur Sugar Mills Ltd

See, again hard to say but it should be about a range if I give to you, it should be about 12 to 15 crores.

Mr. Jagpreet Singh – Individual Investor

For factory repairs.

Management, Dhampur Sugar Mills Ltd

All the expenses which are not loaded on cost of production.

Mr. Jagpreet Singh – Individual Investor

And secondly I wanted to ask did you buy some molasses for the quarter 1 production of ethanol?

Management, Dhampur Sugar Mills Ltd

Yes, we have bought some, we all have been buying from January itself we have been buying and we also bought some in Q1.

Mr. Jagpreet Singh – Individual Investor

Okay, since the molasses internal transfer would be at a very, very low price, or maybe at zero cost and since you are already getting molasses from the external market, I did not see the growth in the margins for your ethanol business and comparing to other competitors, the margins seems to be lesser, could you explain why?

Management, Dhampur Sugar Mills Ltd

I am not sure what was their transfer price that they all used but if we really see from June of '17 where distillery segment sale was Rs 112.8 crores and my EBIT in that was Rs 10.31 crores, and if we see June '18, sales are Rs 137.7 crores and the EBIT is Rs. 55 crores.

Mr. Jagpreet Singh – Individual Investor

I believe June'17 you were under some installation boiler something some development was taking place in the factory, right?

Management, Dhampur Sugar Mills Ltd

But that didn't really stop my production in June we still produced full and that's why the sales were at Rs. 112 crores even in June of '17.

Mr. Jagpreet Singh – Individual Investor

So in quarter two you will be producing, you will be selling ethanol worth 130-140 crores and the margins would remain the same or do we expect it to go higher.

Management, Dhampur Sugar Mills Ltd

No, we all do believe they will stay the same.

Mr. Jagpreet Singh – Individual Investor

Remain the same, alright, okay, thanks.

Management, Dhampur Sugar Mills Ltd

Thank you so much.

Moderator

Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Management, Dhampur Sugar Mills Ltd

Thank you so much. I thank you all for taking out your time to come for our earnings call. If you have any further questions, please feel free to speak to us either by phone or by email. You can also come to our website dhampur.com and post any queries that you may have. Thank you very much.

Moderator

Thank you very much, sir. Ladies and gentlemen, on behalf of Prabhudas Lilladher Private Limited that concludes the conference, thank you for joining use and you may now disconnect your lines.