



**“Dhampur Sugar Mills Limited Q3 FY-21 Earnings
Conference Call”**

February 05, 2021

**MANAGEMENT: MR. GAURAV GOEL – MANAGING DIRECTORS.
MR. GAUTAM GOEL – MANAGING DIRECTORS.
MR. SUSHEEL MEHROTRA – CFO.
MR. NALIN GUPTA – JOINT CFO.
MR. VINIT GUPTA, AVP (FINANCE).
MR. AKSHAT KAPOOR – AVP (FINANCE).**

**MODERATOR: MR. NAVIN AGRAWAL – HEAD (INSTITUTIONAL
EQUITIES), SKP SECURITIES LIMITED**



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Moderator: Good day ladies and gentlemen. Welcome to the Dhampur Sugar Mills Limited Q3 FY21 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Navin Agrawal – Head (Institutional Equities) at SKP Securities Limited. Thank you and over to you sir.

Navin Agrawal: Good afternoon, ladies and gentlemen. On behalf of all of us at SKP, it is my great pleasure and privilege to welcome you to this financial results conference call with the leadership team at Dhampur Sugar Mills Limited. We have with us Mr. Gaurav Goel and Mr. Gautam Goel, Managing Directors at Dhampur, along with their colleagues, Mr. Susheel Mehrotra, CFO, Mr. Nalin Gupta, Joint CFO, Mr. Vinit Gupta and Mr. Akshat Kapoor both AVP Finance. We will have the opening remarks from Mr. Gautam Goel, followed question-and-answer session. Over to you Mr. Goel for the opening remarks. Thank you.

Gautam Goel: Thank you Navin. This is Gautam Goel here. Good afternoon and a very warm welcome to all at Dhampur Q3 FY21 Earnings Conference Call. I would like to begin by sharing my perspective on the sugar sector. While discussing the company’s operational performance, following with Susheel Mehrotra will take you through the operational and financial highlights of the company for the Q3 FY 21. For the sugar season 2021, we estimate the sugar production to be around 30.5 million tonnes in India. The domestic sugar consumption is estimated around 26 million tonnes. Domestic sugar sale realizations are currently ruling at around Rs.32 per kg ex-mill.

The state advice prices (SAP) were for the sugar season 2021 has not yet been announced. The fair and remunerative price, the FRP for the season 2021 is kept at Rs.285 per quintal linked to a basic recovery rate of 10%, providing a premium of Rs.2.85 per quintal for every 0.1% increase in the recovery above that level.

Overall, we are glad to report a stable performance. Average sugar realization for Q3 FY21 stood at Rs.32.64 per kg as against Rs.32.82 per kg in Q3 FY20. Sugar sales for Q3 FY21 stood at 2.45 lakh tonnes as against 1.83 lakh tonnes in Q3, FY20. In terms of inventories the total inventory as of December 31st, 2020 stands at 1.87 lakh tonnes of sugar valued at an average cost of Rs.31.58 per kg.

The company sold 319.72 lakh bulk liters of ethanol/RS including 216.20 lakh of ethanol derived from be B-Heavy molasses at an average realization of Rs.51.21 per liter during the Q3 FY21 as compared to 187.64 lakh bulk liters of ethanol/RS including 61.91 lakh bulk liters of ethanol derived from B-Heavy molasses at an average realization of Rs.44.32 during Q3 FY20.

The company during Q3 FY21 sold 70.82 lakh kgs of chemicals at an average realization of Rs.65.81 per kg as against 54.56 lakh kgs of chemical at an average realization of Rs.56.86 per kg during the same quarter last year. During the quarter ended December 31st, 2020, Dhampur



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in its power segment generated 23.12 crore units of power as against 20.45 crore units in the same quarter last year, the export of power stood at 11.75 crore units at an average realization for Q3 FY21 at Rs.3.22 per unit as compared to 10.54 crore unit at an average realization of Rs.3.14 per unit in the same quarter last year.

I would now like to introduce our CFO Susheel Mehrotra to take you through the financial performance of the company. Thank you.

Susheel Mehrotra:

Thank you, sir. Good afternoon and thank you once again for joining us on the call. I would now like to take you through the financial highlights of the company for the quarter ended December 31st, 2020. Our revenues from operations in the quarter were 1108.82 crores compared to 820.47 crores in the previous year same quarter. EBITDA was 112.30 crores versus 92.84 crores in the same quarter last year and PBT was 77.65 crores versus 53.61 crores in the same quarter last year. The profit after tax stood at 54.56 crores in Q3 FY21 as against 51.02 crores in the same quarter last year. Our interest cost stood at 12.88 crores during this quarter as compared to 20.44 crore in the same quarter last year.

Now, let me take you through the business wise performance for the quarter ended December 31st, 2020. The sugar division reported revenues of 949.68 crore contributing to 71.47% of the total revenues as compared to 69.05% at Rs.733.87 crores in the same quarter last year. EBIT in this segment stood at 13.46 crore as compared to profit of Rs.27.02 crores in the corresponding quarter last year.

Revenues from ethanol and chemical business for the quarter were 233.65 crore as against 145.25 crore in the corresponding quarter of the previous year. EBIT for this quarter stood at 62.27 crore against 15.34 crore in Q3 of last year.

During this quarter power revenues are 112.74 crores with a profit of 30.60 crores as against revenue of 144.28 crores with a profit of 47.84 crores in the same quarter last year.

The company has made repayment of long term debt of Rs.26.5 crores during this quarter. The long term loans as of 31st December 2020 stood at 423.9 crores.

These are our top level financial numbers. Thank you once again for joining us on this conference call. We'll be happy to answer any queries that you may have. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. First question is from the line of Sanjay Maniyal from ICICI Securities. Please go ahead.

Sanjay Maniyal:

So just a few questions I have one specifically on the distillery side that your volumes have been much better, for the quarter compared to corresponding quarter. So what is the distillery volume we can expect for the full year FY21?

Management:

So, Sanjay what we also spoke last time, our total contract with the OMCs for this year is 10.5 crore liters that we have done, and apart from that we do plan to make about 2 to



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2.5 crore liters of ENA. So, our volume for surely expect to be better for next four months.

Sanjay Maniyal: Right sir. And as we are hearing that recoveries have been lower in this season, what is our total estimate of what kind of sugarcane yield or what kind of sugarcane crushing we will do for the full season and what is the impact for us in terms of recovery?

Management: So, as of 31st December, 2020, we were down by about 0.69% vis-à-vis last year, but since January we have started seeing a improvement so we believe that anything from 0.25 to 0.3 is what will be lower than last year as of now. As far as cane yield go even better than what we are seeing it to be marginally lower in Western part of UP where we all are. So, we believe that our cane that should be almost similar to last year, the cane has just started to come and see what we have done and what we expect to do we should be almost close to same as last year.

Sanjay Maniyal: Okay. So which means that yields probably are better compared to the Eastern side of UP or these other parts of UP, can we assume something in this?

Management: Yes, so for surely what we've been hearing the Eastern side is seeming to be slightly lower than what has happened in the Western side where our five plants are. So yes, our yields are slightly lower so the increase cane crush that we had expected perhaps that won't happen. That is why we expecting our crush to be almost same as what we did last year.

Sanjay Maniyal: And sir one last thing that we do export, like as you mentioned you've already contracted the entire quantity of export, at what price we have contracted these quantities and if I just may ask that, do you see any possibility that probably, if domestic quota remains pretty decent, pretty much same as last year then probably you exhausted inventory even before the next start of crushing season?

Management: So, you're right on that, that we had an export MAEQ of 1.55 lakh tonnes, that we have already done, we have already finalized all our contracts. As far as the inventory that we have got leftover, it's very early days to say as to when it will be over with, it is extremely dependent on what is the sort of demand that India will see over the next months. But for surely, that by 2021 hopefully we should be able to sell all of our old stock.

Sanjay Maniyal: Right sir. So just before concluding I want to ask, in last concall you discussed about the new CAPEX so if we can just give some details about it, when it is likely to be commissioned and how is the progress on that?

Management: So, as you know that in the Asmoli plant of ours which is at 150 KLPD as of now we are taking it up to 250 KLPD by start of next season, our plant will be up and running. So, I would say that 30th November, 2021 is where we expect our 250 KLP plant to start.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.



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- Madhav Marda:** I just had a couple of questions. The first one was, could you help me understand why the sugar profitability came down so much maybe I'm missing something very basic but if you could just help me understand that will be really helpful?
- Management:** So the sugar segment came down mainly because we all have made more B-Heavy this year vis-à-vis last year, if you see our total B-Heavy stock that we have as on 31st December stands at 0.89 lakh tonnes against 0.56 lakh tonnes as on 31st December 2020. We have consumed 7.53 lakh quintals B-Heavy during this quarter, which is around 30% or 35% higher than last year.
- Madhav Marda:** Okay. So, that impacted our sugar profitability this quarter?
- Management:** Yes, plus it was a major impact that we have started to diverge more B-Heavy from sugar to make ethanol. So that is the main reason where you are seeing that impact happening. So, the profits have moved from one segment to the other ones.
- Madhav Marda:** Okay. Sir maybe like going ahead for the sugar industry in general, would it start making more sense to look at sugar and ethanol profitability combined because this sort of movement will happen right, as more and more diversion keeps happening towards ethanol over the years?
- Management:** Madhav you are totally right, that is how you will have to start to see it, because with the amount of B-Heavy sugarcane juice in the future that is going to happen. You will have to see both in combination and not one vis-à-vis the other.
- Madhav Marda:** Okay. And my second question was, you have given there the sugar production is expected to be in the sugar inventory levels that the country is carrying, would you be more positive for sugar prices in the coming years, do you think it can sort of naturally move up to Rs.33, Rs.34 or that seems a bit?
- Management:** Again, if you see what our closing stock was as on 30th September 2020, was about 10.5 million tonnes. India is expected to do about 3.5 million tonnes, demand is 26 billion tonnes export of say 5.5. So, our stock will come down to around 9 billion tonnes. Now obviously, we have to wait and see what is the crop expected in 2021-22, so it's very hard to say but for surely I believe sugar prices still should stay stable, my view is not that they will go up very, very much over the next few months, so right now we are at about 32, it can go up to about 33. But India has got a stock of almost about four months so we are pretty good with our stock, let see how much of diversion will happen to B-Heavy and to sugarcane juice as it will be a big factor as to what the prices that we can see in Q4 of 2021.
- Moderator:** Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.
- Kunal Mehta:** Just wanted to have few details, sir I actually saw the number that you mentioned in your opening remarks regarding the export realizations which you have contracted for the season. So could

you please, repeat and tell me?

- Management:** So, 1.55 lakh tonnes was our MAEQ for this year, our average ex-mill price that we will get is around 25.1 to 25.2 per kg.
- Kunal Mehta:** Understood sir. And secondly regarding cost of production could you please tell me what is the cost of production in this quarter?
- Gaurav Goel:** Yes, the COP for 31st December 2020, was 31.58.
- Kunal Mehta:** Okay, got it and just one more question from my end. So, just wanted to understand sir when you shift ethanol just a fundamental question, I wanted to have a bit more clarity on this side, so when we shift our sugar from C-Heavy from B-Heavy. So, just want to understand on a net-net basis, how much does your cost of sugar go up for every I would say, 0.1% drop and recovery when you shift from C to B. So, if I can understand that lot of costs would be then spread over a lower amount of sugar because you have sacrificed sugar. of course, it would be compensated by higher margin for ethanol also, so, for a thumb rule when you shift from C to B and depending on how much you shift, how much does the cost of production go up for sugar?
- Management:** Out here the biggest issue when you shift from C to B-Heavy, it is the amount of sugar which you leave in. So, as C if we talk about the TRS, it is approximately 46 to 47, when you go to B-Heavy it can range from 55 to 60. So, it becomes very-very tough for anyone to really mentioned as to what will be the difference of COP because it will vary from factory to factory. From every plant it will vary, but what you can just assume is that, if you lose point one you can get a higher yield of approximately 2.1 will give you a higher yield by about 4.5 liters increase you get in the yield of ethanol for every point one that you sacrifice.
- Kunal Mehta:** Got it sir. And sir could you please just help us on the cost of ethanol for this quarter, for the cost of both B and C heavy?
- Management:** Weighted average cost of production for B and C for this quarter stood at 30.47 per liter of ethanol.
- Kunal Mehta:** Okay, for the present quarter?
- Management:** Yes, for the present quarter weighted average cost of production for both B and C.
- Moderator:** Thank you. The next question is from the line of Anupam Goswami from B&K Securities. Please go ahead.
- Anupam Goswami:** My question is on the follow up of the previous question. You mentioned about the weighted average cost of ethanol. So, how much is the molasses transfer price in this?
- Management:** So, for C-Heavy our transfer price is 400 per quintal and for B-Heavy it is 800.
- Anupam Goswami:** Okay, it's taken at the market price right?



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- Management:** Yes. So, this is basically the transfer pricing which has been finalized has been done. See on B-Heavy there is no official price, because there is no sale which happens on B-Heavy.
- Anupam Goswami:** Okay, got it. And sir my next question is on the export we have contracted the entire export, you mentioned around 25.1 that according to me it's like it's coming at around \$0.15. So, do we not see any further upside to the export global prices and that's why we have contracted the whole quantity?
- Management:** See I was talking about ex-mill price. So the ex-mill price is basically after we cut the cost of the transport and the fobbing which happens at the port. Otherwise, these cost is about \$0.16 per pound, but that is again at the port right. So you have to take out the about Rs 2400 per tonne is the cost which transfer the raw sugar from your factory to the port. For when you see New York price, that's all FOB, it is not ex-mill. I gave you a ex-mill price.
- Anupam Goswami:** Okay, good. So do we not see anything further like the shortage sustained in the global market, do we see international prices going up above \$0.18 or \$0.19?
- Management:** That's always been the stock right, so when we did our own contracts at that point of time, we were told that this is the highest, which can happen, that's anyone's. From our perspective we all saw that the price for export for us is good. And that's why we did our contracts. But I am not the expert on global market, so for me to really say whether New York will go up to \$0.18 or will come down to \$0.14, I have no clue at all.
- Anupam Goswami:** Okay, now the last questions is on the CAPEX, that we have 100 KLPD as we are putting so that's going to be based on cane juice and B-Heavy or is it having any grain base also?
- Management:** No, this is only on juice and on B-Heavy. Because we are not planning on grain as of now.
- Moderator:** Thank you. The next question is from the line of Simran Bagaria from SKP Securities. Please go ahead.
- Simran Bagaria:** Sir I have a question regarding, what is the payback period for the CAPEX of 100 KLPD that we have announced?
- Management:** So the payback as of now is about 2.5 years.
- Simran Bagaria:** Okay. And sir with more diversion towards ethanol, what could be the reduction in sugar production going forward?
- Management:** Again, Simran it's a very futuristic question, we have to see what sort of cane planting that we are seeing next year. So, even if we diverge in our Dhampur and our Asmoli plant we do plan to divert about 80 to 100 lac quintals of cane for sugar cane juice. Even after that we will have certain amount of cane which will go up. So, it could be anything from 5% to 10% is what we believe will be the sugar that will produce lower next year.



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- Moderator:** Thank you. The next question is from the line of Zakir Naseer an Investor. Please go ahead.
- Zakir Naseer:** Sir, my question would be, if you see the way sugar per se in the domestic market, the way it is being sold, especially in modern trade, I think Dhampur also has started making the efforts to brand sugar and the realization for this is pretty decent. So, I would like to know what your efforts would be towards making the company more brand centric and which would lead to a larger realization of course, it will take a lot of time, but a lot of commodities have gone that way. So, I would like to have your opinion on that sir. Thank you.
- Management:** Zakir, as you know that within India perhaps Dhampur was one of the first ones to come into branded sugar that we are talking almost about 18 to 20 years back, is when the Dhampur brand was launched. We do believe it's a market which can grow, it's a good one. But the growth is extremely small even as on date. But, I do believe that the amount of super marts which are being opened up, everybody trying to buy more foodstuff online, I do believe that this is a great segment, but we have to also realize that 70% of all sugar that is sold in India is for institutions, only 30 goes into retail. So from that perspective, it is a market which is going to grow, but at what pace will be still a question as to how many of us will actually go and pay a premium for branded the same thing which happened in salt, when we spoke about salt almost about 10 years back was always a myth. So, I am fully with you on this that branded will for surely do better in the future and we are surely working on that, we have taken out new product lines to try and expand our share and to get new products out for branded. So, I agree with you, but it will take some time anything from I would say a three to five year period is what we see where the branded will actually have an impact on the bottom line of the company.
- Zakir Naseer:** And sir a little bit of your opinion on the chemicals related to molasses and stuff like that with Dhampur making an effort towards it?
- Management:** So, our ethyl is doing really well right now, our ethyl plan that we have at Dhampur has done really well for this quarter also and we do plan to see as to how to expand that area also. So, chemical is also one side that we are seeing as to which all areas to grown in, in certain specialized but all that is still in study as of now. Hopefully in the next six to nine months we have sort of a clarity on the chemical side as to where we want to go in the future.
- Moderator:** Thank you. The next question is from the line of Anupam Goswami from B&K Securities. Please go ahead.
- Anupam Goswami:** Sir what was our country liquor sale this time, as in?
- Management:** Liquor is still very, very low right now. Our total cases that we sold is only about 1 lakh odd cases is what we sold in these three months. We are still a very new entrant in the market, it is again when we started, we didn't realize it was still a very, very branded play even though the pricing is all the same. So, we are trying to grow in that market.
- Anupam Goswami:** Okay. So, do we make any good margin on that?



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- Management:** As of now, cost are higher than what we are earning, but again as I said that we have just started. So, it's not a huge amount of loss that we are agreeing but it is a market that we will need to develop, it's a very tough one to enter into as there are very good players who've been there for the last 18-20 years. So yes, that is one area that we want to get into, but CL is an area that we want to surely put our efforts into as we believe it's a market which can grow for Dhampur.
- Anupam Goswami:** Okay, sir. So even though small segment like branded sugar, how much sales we have done or in a branded basis, how much we are doing in a year and is there any higher cost associated to it?
- Management:** So, we have sold around 50,000 quintals in this quarter and we are getting around Rs.1.5 higher than the usual sugar market, in the branded sugar segments.
- Anupam Goswami:** Is cost associated also higher on this?
- Management:** Yes, it is incremental over and above the packaging and labor cost which we incur in the branded sugar.
- Anupam Goswami:** Any advertisement costs also associated in this?
- Management:** It is minimal.
- Management:** All the ads which have been done are all on social media as of now. So that's why the cost is very, very low on our ads. So we are only going through social media because as of now, our branded sales is mainly in Northern part. So then to advertise all over India becomes very expensive even though now we started going to the Western part of India also with our brand, but the sales there are very small as we said that we keep our cost in check to start often but if we see some sort of momentum which is coming up people surely have no problems in all in making our cost slightly higher and making a profit slightly lower but as of now everything is done only through social media.
- Moderator:** Thank you. The next question is from the line of Simran Bagaria from SKP Securities. Please go ahead.
- Simran Bagaria:** Sir one more question. So, with such strong cash flows, what kind of debt level that we are looking for FY21 and FY22 and what would be the average cost of borrowings for interest obligation for the current year?
- Management:** So, that's absolutely true, but you have to also realize that our debt level is mainly because of working capital, long term debt was already said in the call is only about 420 odd crores we do plan to take extra debt for our expansion that we are doing, but that's also because of the soft loan that we get the interest subvention from government of India for our expansion of 100 KL. So, our long term debt will be around 500 crores but if you see our working capital as of 31st Dec was only 203 crores vis-à-vis 935 last year. So we have to see our total debt vis-à-vis long term and short term. So all the extra cash flow that we get, we use it for our own working capital.



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- Simran Bagaria:** Okay, and sir what would be the average cost of borrowing?
- Management:** You can say about 7.2%.
- Moderator:** Thank you. The next question is from the line of Anurag Patil from Roha Group. Please go ahead.
- Anurag Patil:** Sir, I have some basic questions about ethanol segment. So, just to understand the profitability perspective, what are the key factors that affect the overall ethanol segment?
- Management:** See, the overall impact is what is the sugar price that you expect over the next 12 months is the main aspect that we have to take into account when we say that we want to divert more, sugar either for B-Heavy or for juice. So, that is a key thing that we as a group have to think about and then take a call on that as to how much is the sugar stock that we expect which is there in India, how much is the quota or the demand which we expect over the next 12 months and on that basis, how much of sugar we want to divert. So, these are the key things that have to be thought about when you take a call about B-Heavy or of juice.
- Moderator:** We have lost the line for Mr. Anurag Patil. The next question is from the line of Sanjay Maniyal from ICICI Securities. Please go ahead.
- Sanjay Maniyal:** So, just one thing, as the previous participants also asked about the working capital debt, so by the time we go to the peak season say by March what could be our working capital, what is our estimate that what we are working capital debt?
- Management:** So again it will vary, it will be based on what sort of quotas that we get on our sugar sales.
- Sanjay Maniar:** Okay. So 600 + 500 the long term, so?
- Management:** No, our long term as of 31st March will still be at about 400. The 100 will only draw after April 2021.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Gaurav Goel for his closing comments.
- Gaurav Goel:** Thank you so much. On behalf of Dhampur we would like to thank you all for taking your time out for this call. If you have any further questions, please feel free to contact us either by phone or by email. You can also visit our website dhampur.com and post any queries that you may have and we will get back to you as soon as we can. Thank you again, to all.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of SKP Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.