



“Simbhaoli Sugars Q2 FY10 Post Results
Conference Call”

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**MODERATORS: DR. G.S.C. RAO – EXECUTIVE DIRECTOR & CEO,
SIMBHAOLI SUGAR
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MR. SUNIL GUPTA – GENERAL MANAGER, FINANCE,
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Moderator

Ladies and gentlemen good morning, this is Rochelle the moderator for your conference call. Welcome to the Simbhaoli Sugars Q2 FY10 Post Results conference. Please note that for the duration of this presentation, all participant lines will be in the listen-only mode and this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing '*' and then '0' on their touch tone telephones. At this time I would like to turn the conference over to Mr. Sanjay Tapriya, CFO. Thank you and over to you sir.

Sanjay Tapriya

Good morning friends. I am Sanjay Tapriya, the Finance Director and CFO of Simbhaoli Sugars, along with me Dr. G.S.C. Rao, the Executive Director and CEO of Simbhaoli Sugar, Mr. Sunil Gupta, the General Manager – Finance of Simbhaoli will also be addressing the queries.

The idea of this conference is to discuss about the financial results which came out in the last week of April and also at the same time to discuss about the transition or the changes in which the Indian sugar is going at present which, of course, has created certain turbulence, not only for the industry but specifically for the company also. At the same time we are believing that the business model of core refining which we have taken up is making a sense and to put forward before you the results, the inventory situations, and the operational issues related to the company so that a meaningful understanding of the subject can be made.

The context of this has also emerged because a number of queries have been raised by certain sections of investors and proposed investors about the mark-to-market on the inventories on the white sugar as well as on the raw sugar so those also I will be in a position to take up during my discussion.

As you are aware Simbhaoli is a 75-year-old organization having three sugar complexes in northern India. The company is producing sugar including refined sugar, power, and alcohol.

In the sugar sector Simbhaoli has successfully converted two of its facilities into sugar refineries where it's not only converting its own raw into white but also has been importing the raw sugar and converting into the white during the season and also in the off season. Presently, all three plants are operating with the imported raw sugar and we are taking the advantage of the recent fall into the raw sugar prices.

Inventories are with the company, those have been mark-to-market in end of the last quarter and price line after dropping it by really 30-32% they have become stable in the range of about Rs. 28-30 per kg.

Simbhaoli is into the IMFL segment also. It is the big supplier of ethanol also, once the program starts. In time to come, along side of the sugar, power and IMFL are going to be the two business segments in which Simbhaoli would like to excel.

Without taking much time, I would like to take the questions and most of the discussions should emerge out of the question and answer session. So I request the participants to involve into the questions answers mode. Thanks a lot.

Moderator Thank you very much sir, ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of K.C. Suri from Span Capital. Please go ahead.

K.C. Suri Could you update us as to how much inventory you are carrying and where the quantum of mark-to-market you have taken on that?

Sanjay Tapriya the Company is consistently carrying the inventories of about 17 lakh quintals which is about 170,000 metric tons and that 170,000 metric ton include the inventory manufactured out of the cane sugar as also the raw sugar white. In quarter our average cost of production has been about Rs. 32 and we have got it down to Rs. 27.20 including levy sugar. So the differential we have accounted for as the mark-to-market.

K.C. Suri And what about the plans to set up a pure refining unit you had, could you throw some light as to what's the development on that?

G. S. C. Rao I am Rao here, the Director and CEO of the company. Refinery is progressing as we have planned. The land purchase has been done, the contour mapping and the soil bearing capacity all that has been done. We are negotiating the technical part of it on the boiler and other equipment and waiting for the financial closure from the banks which we expect to happen in the next few days. Once it is done we will go ahead with the project.

K.C. Suri Okay. Sir if you could also throw some light on the overall sugar scenario existing in the market?

G. S. C. Rao Yeah, overall sugar scenario is like this, there is an increase of about 3-4 million tons of sugar production because of the higher yields of sugarcane in Maharashtra as well as in U.P. which led to a fall in the prices and coupled with the international market coming down because of India not getting into the import mode. Overall situation is that we will have about 18.5 million tons production this year, U.P. being 5.16 million tons and we expect that planting in this season is good and about 25% of the planting of the crop and 15% overall, we expect 23 to 25 million tons of sugar production next year. If the white sugar imports which are really creating a bearish trend in the market, if the custom duty is imposed on white sugar and the import of white sugar stops, we expect that sugar prices will stabilize around Rs. 30 to 32. Just one act from the government is getting delayed; we expect that in a month's time that should happen, there is an assurance from the government of India in Krishi Bhawan. White sugar imports would definitely be stopped. That will definitely stabilize the domestic market. So far the white sugar is only creating the market bearishness then also lots of plethora of the controls which the government has imposed; those things are slowly taken away with the release mechanism to 1 month from 15 days to one week and by June end things should be better off.

K.C. Suri Okay thank you.

- G. S. C. Rao** And another thing which is a major development is the ethanol blending program which is in active consideration. Twice it has been referred to the empowered group of ministers which has got their nod and it is waiting for the cabinet approval. As and when it happens, the ethanol blending program at Rs. 27/- will definitely help the sugar compress its revenues and which will also help in cash flows and other things. So ethanol blending program is another thing which may happen in a month's time. These are the two major developments that will stabilize the industry.
- K.C. Suri** And what is the current price at which white sugar is being imported approximately which is causing the bearish trend?
- Sanjay Tapriya** The fact of the matter is not much of the white sugar is coming in the country. Everyone is talking about the custom duty around the corner with reference to the white sugar. So traders are not bringing it. But it's creating a bearing sentiment in the market. At present if you trade and if you would to bring the white sugar in the country at port it will cost about Rs. 26-26.50.
- K.C. Suri** Fine. And Mr. Tapriya, you said from 32 to 27 you marked down the average cost on 170,000 tons and actually 85 crore is the hit you have taken, right?
- Sanjay Tapriya** No it's not exactly Rs. 85 crore because part of the stock has been sold rest about 49 plus 16, about Rs. 67 crore which is being marked down.
- K.C. Suri** what's the debt and cash figure as of the end of quarter right now?
- Sanjay Tapriya** the Company has about Rs. 360 crore of long term debt in the books, out of that Rs. 75 crore in the sugar development fund which is, I say, ultra long term and Rs. 288 crores is the term loan from the bank, etc. Besides we have little about 400 crore debt with regard to the working capital which is tied up against the stock of the sugar of the raw, etc. So this is a situation; against that there is about Rs. 20-25 crore which is the normal cash we carry in the book of accounts, that is there.
- K.C. Suri** Right, thank you so much.
- Moderator** Our next question is from the line of Varun Guntupalli of Edelweiss Securities. Please go ahead.
- Varun Guntupalli** I wanted to understand what is your take on the sugar sector next year, in terms of the pricing?
- Sanjay Tapriya** Well I am going to see that the next sugar season will be a balanced season, whereby the production and the demand will be nearly matching. And also given the fact that the opening inventories are not very huge, I mean they are about maximum 1-1.5 months consumption, I am seeing a stable price line and given the fact, in spite of the imports tax which will be neutralized by the duty by the time the next season starts, so I am seeing a price to a best about Rs. 30-31 and worst about Rs. 26-27, in this range.
- Varun Guntupalli** Okay sir, and in terms of the imports this year, what are the import numbers stands till now and what is expected for the whole year in terms of the imports numbers?

- Sanjay Tapriya** I know the rough figure up to April end because beyond April not much of sugarcane is there. 3.2 million tons of sugar which includes raw and white together by April end. And I think given the fact that we are producing 18.6-18.7 million tons of sugar, we should import 4.5 to 5 million tons of sugar to balance the SND. So if I take 4.5-5 and 3.2 has been taken up to April, beyond April about a million tons of minimum sugar should come into the country. So that's what the expectation is for the future.
- Varun Guntupalli** Okay sir, and in terms of the levied price, now there is a stock of government would be increasing the levy prices, so what is your take on that?
- Sanjay Tapriya** So far the levy price has been dispersed at the range between Rs. 12.60 to Rs. 13.50 with the location where you are. And the discussions or whatever has been understood at the association level and also the government level is that a movement is on to bring it more to FRP levels and they are talking about a Rs. 3 to 4 minimum increase therein, though industry has been demanding Rs. 5 to 6. So once that will come that is about Rs. 4 per kg if you built in say for Simbhaoli it will then amount to about Rs. 16 crores for Simbhaoli and for different entities depending on their size and the cane sugar they have produced. So that's what it is as of now. But we are expecting that within 30-45 days it will be announced.
- Varun Guntupalli** Okay.
- G. S. C. Rao** And I just wanted to add that the levy sugar has increased from 10% to 20% for this year only and automatically it will become 10% from the October onwards, the next sugar year. But we expect we are being assured by the government even the 20% will be reduced to 15% because there is enough levy quantity because of increased production. So there is a possibility of effectively supplying 15% levy instead of 20% as it is there. So the levy sugar quantities will reduce even in this sugar season before September in terms of dispatches.
- Varun Guntupalli** Okay sir. And in terms of the cane price, what is the price which you have paid this year and what is the outlook for the next year sir?
- Sanjay Tapriya** We have paid about Rs. 260 per quintal with some special cases in which we have paid up to Rs. 280 i.e., Rs. 2600 to 2800 a ton. The biggest correction that will happen is that the cane price next year will not be more than Rs. 1800 to Rs. 2000. The industry is thinking 1800, give and take it may be ...so the greater correction given in sugar price at a particular level, which Sanjay has said, around Rs. 30 to 32 or Rs. 25 to 30. The major correction for the industry will happen on the raw material pricing rather than the product pricing. Even farmers are expecting around Rs. 1800-2000, cane price. Because they have been paid much more than what they expected this year. In view of daily sugar prices the industry went ahead in payments that correction will happen next year.
- Varun Guntupalli** Okay sir. Thank you very much sir that's all.
- Moderator** Our next question is from the line of Ankit Rastogi of Capital Market Publishers. Please go ahead.

- Ankit Rastogi** How much ethanol are you expecting to sell through the blending program?
- G. S. C. Rao** As a company we expect about 2.5 crores liters we have given our figure to the association. The ethanol blending program is just getting delayed because of the procedural matters. In principle the price is agreed, the quantities are more or less are given by the industry. The cabinet approval has to be done which is expected in first fortnight of June definitely. Industry has given about 600 million liters of ethanol as the lot of season has already gone so this quantity we expect that is sufficient for the remaining period of the year, then we will have more sugar production, therefore molasses and alcohol. We have increased it to 800 to 1200 million liters. So as such the estimate given to the oil industry are sufficient to meet the requirement, as a company 2.5 crore liters, as an industry around 600 million liters.
- Ankit Rastogi** So these 2.5 crore is for FY10 and it can further increase in FY11 or both..?
- G. S. C. Rao** No it's for this year only. Next year we will again tender, if there is a shortfall in this year, we are ready to supply more. We are just looking how this program shapes up and if there is a requirement we have a capability to produce about 118 kilo liters of ethanol everyday and we can always meet higher requirements. As such whatever figure we have given/ our industry has given, which is the first installment and if the industry has been asked to give further, whatever they can. When the program takes off then the supply figures will be corrected by the association and given to the oil companies.
- Ankit Rastogi** And what are the molasses and expect prices currently in U.P.?
- G. S. C. Rao** Molasses price in U.P. are around Rs. 230-260 a quintal, Rs. 2300-2600 a ton and 30% of it goes to levy for country liquor and potable segment. The free-market price is Rs. 2300-2600, which should be around this only. After the season starts, it may come down but it will not go up.
- Ankit Rastogi** Okay and sir what about the possibility of sugar production in next year to cross 25 million tons?
- G. S. C. Rao** Sugar production is the basic factor which affected this year, which will happen next year also if at all. The yields of sugarcane cannot be predicted precisely. Given an area of 4.7 to 5 million hectares of land under the sugarcane in India in general and the 17 lakh hectares to it may go up to 21 to 20 lakh hectares in U.P., so we expect that sugar production should be between 23.5 to 25. Unless the yields are exorbitantly good and high, the production is expected to be around this.
- Ankit Rastogi** Okay so there is very less possibility of going beyond 25 million.
- G. S. C. Rao** It can happen. You see in the agro-based industry we cannot put a definite scale, but it can happen a million tons this way or that way, but 25 is reasonable, it should be okay, that's what I feel.
- Ankit Rastogi** Okay and it is after considering the good monsoon?
- G. S. C. Rao** Yeah we are expecting a good well spread monsoon with a rain spreading from June to September.

- Ankit Rastogi** Okay thank you sir. That is it from my side.
- Moderator** Thank you Mr. Rastogi. Our next question is from the line of Kunal Bhatia of Dalal & Broacha. Please go ahead.
- Kunal Bhatia** Just wanted to know in regards to the realization which you are getting in case of co-generation and what to do you expect it going forward?
- Sanjay Tapriya** Co-generation the present realization we are getting about Rs. 3.92 to Rs. 4 per unit in two different plants and going forward for the season I am expecting this to continue. For the off crop period the government of U.P. has announced a policy whereby they are going to announce better rates for the power generation run by the sugar industries in the off crop period, so that is likely to be about Rs. 5 a unit, so that's the number at present.
- Kunal Bhatia** Okay but if I break it up, off crop and the normal, how much would you be producing in the off crop period?
- Sanjay Tapriya** Maximum power will be produced during the crop period because that's based on the bagasse what people use from the cane and that burn in the boilers. For example, presently since we are doing the raw refining at that time we are burning the alternate fuels and we are generating power and giving it to the grid. But if you say as a percentage I believe 85% to 87% of the power will be produced and sold during this season and 12% to 15% of the power will be sold during the off crop period.
- Kunal Bhatia** And about your co-generation facility, even you have anything available using coal you can produce or do you just have the normal ones with the bagasse.
- Sanjay Tapriya** No we have the co-generation at present which are linked to the grid at two of the locations out of three. Third has a surplus power but that's not linked to the grid so far and in both the locations the power generation facilities are workable during the season with the bagasse and during the off season with the coal. But with the coal since we do not have that much of utilization of the steam, the generation is not 100% what is it there in case of with the bagasse. That is the universal truth which applies to all the sugar mills.
- Kunal Bhatia** Alright, thank you so much sir.
- Moderator** Thank you Mr. Bhatia. We have a follow-up question from the line of KC Suri of Span Capital. Please go ahead.
- K.C. Suri** Do we see ourselves taking in another hit on account of inventory mark down in the coming quarters?
- Sanjay Tapriya** Well I don't think so because Rs. 27.22 is quite a reasonable number on which the inventories are valued, if you take it. And presently we are selling at an average price which is above that at Rs. 29-30. So unless the prices go below that level, I am not seeing any further mark-to-market.

- K.C. Suri** Okay right thank you.
- Sanjay Tapriya** more in this industry, price may go either way...
- K.C. Suri** Yeah of course, as things stand as of today, that's why I asked.
- Sanjay Tapriya** Absolutely.
- K.C. Suri** So what could lead to further write down? What would be the trigger we should look out for which we think will lead to another series of write downs?
- Sanjay Tapriya** I am not seeing anything further, any event or something which create a need for further marking it down because not much of an imported stuff is coming into the country, white is not coming. And government has become proactively aware now that the industry the prices fall cannot be sustained over a period of time. Given both the factors I am seeing that the prices should now stabilize at this level. If they stabilize at this level also further mark-to-market problem should not arise for the industry. Except to those factories who have yet to do it or they have not yet done it fully in the last quarter. So I am not seeing much reason. I mean you never know something comes up in Brazil or India or something like the next crop is going to be so big which creates a threat for this crop that becomes a problem.
- K.C. Suri** Next crop output is going to be between 23 to 25 right? That's what we are looking at and demand is going to be also on similar lines?
- Sanjay Tapriya** Absolutely, SND is going to be quite well actually.
- K.C. Suri** Okay.
- G. S. C. Rao** I just wanted to add a few things. See what's happened in previous year sugar prices gone up pulling up cane prices. This year the sugarcane price will do the correction, not the sugar price. Sugarcane price correction of this magnitude how it will impact 2011 and 2012 one has to be really seeing it. There is a hit of almost Rs. 100 a quintal and Rs. 1000 a ton. That's how farmers will react to that. Higher price that the industry has paid and that's far above the FRP or SAP whatever, as it is in different states people have paid, that will not be there. So correction will happen on sugarcane price, number one. Two is that we will have ethanol blending program in place, we have more co-generated power because of the availability of bagasse and the company Simbhaoli will continue to do the refining in this off-cane period where the plant facility utilization is much better than any of the peer group around here. These things will definitely contribute to the top line and the sugarcane price being corrected, the bottom line should be okay. So we are very optimistic and looking forward to have a season where we do not have to really chase the sugarcane. The sugarcane business we will always have surplus sugarcane in the area. We are looking forward to have a very good season coming.
- K.C. Suri** And with regards to these 2.5 crore liters for FY10, what can it generate for us in terms of rupees?

- Sanjay Tapriya** You see for example if the spirit is being sold at Rs. 23 per litre this is likely to be priced like Rs. 27 a litre. So this will give an incremental gain of about Rs. 4 litre over and above the ENA or RS, etc. So that's Rs. 4 translating to...and what happens it's a very important thing that in the counter flow of the sugar business, when the sugar prices are low the byproducts always gives a better returns. Most of the byproducts we are producing go down. And also Simbhaoli is creating a market for its extra neutral alcohol in the other geographical locations, we are exporting it in a big way and we feel that this will be a further thrust area for the future.
- K.C. Suri** If next year the SND situation would be at par vis-à-vis each other then your refining capacity which would come up to process raw sugar, how does that fit into the economics of the whole thing? Or you think that till the next time we have an SND this would idle, how do you look at it?
- Sanjay Tapriya** The project implementation period itself is about 18 months. Given that the plant will be available for production sometime in the month of December 2011 or near about that time. And I am quite sure that by the time the 2011 season is going to get over by April 2012 or something, we are going to witness a new cycle per se. So for the refinery we will definitely take an advantage of the next cycle, not this cycle, because this cycle is already over. And given the fact that the cycles are more volatile now, there are more short term, the refinery will definitely see the business opportunity by that time it will come into line and also by that time it has fully stabilized its commercial production.
- K.C. Suri** The demand for this refinery you see it arising due to reduced croppage by farmers in the next to next season, or what would you term that as because there would be import of raw. Why would that happen because they are getting less money this year for the cane, that could lead to less farming the subsequent year, or how would that be?
- Sanjay Tapriya** Well what we have seen is that the sugar which is cyclical will continue to remain cyclic. And this cycle is far bigger than the previous cycles. Thereby the shortages are more acute, imports are going to be much bigger in numbers as compared to the previous cycle import numbers. So this year the turning of the cycle has started next year or maximum next-to-next year we are going to see the surplus production and thereafter we are going to see the fall in the production. So as a business philosophy we must catch that fall from the beginning of the season, than in the middle. And for that purpose our refinery will be in place and will be fully functioning.
- K.C. Suri** And how much are we investing in the refinery, just to reiterate the amount?
- Sanjay Tapriya** Rs. 195 crore is the amount which we have announced and which we have given to the bank. So that's the public figure at present.
- K.C. Suri** Right thank you so much sir and all the best.
- Moderator** Thank you Mr. Suri. Our next question is from the line of Satish Mishra of Pinc Research. Please go ahead.

- Satish Mishra** Can you give your view on the global demand-supply scenario and Brazil in particular, what production are you looking at next year?
- Sanjay Tapriya** Global SNDs if you look at, that last two seasons we have seen a shortage in the global SNDs, thereby the world has been digging into the inventory and the consumption will be far stripping than the demand. So we will be seeing that the global SND will be matching and probably will be go into a little surplus of about 250 million tons. So if you put them on a number, the production will be in the vicinity of about 167-168 million tons and demand will be in the vicinity of about 165-164 million tons. So the turning from the shortage to the surplus situation, only that created a bit of a fall in the market and one of the major plays in this has come from the Indian side, because India was planned to consume about 4 to 5 million tons of sugar which it has produced from its own cane. So I am seeing that the global SND is going to be more balanced in the next 1 or 2 years when India is not importing. And with the balance SND definitely the global business or the global sugar industry will be utilizing the cane for reduction of the ethanol in a big way. It means that there is going to be a string from the sugarcane being used for the sugar side to the sugarcane being used for the ethanol side because wherever there are a surpluses in the global SND, the ethanol as a big alternative start in Brazil and also being followed by the other countries. So I am seeing the balance SND at least for the next two crop years.
- Satish Mishra** Sir out of these 167 how much production are you looking at Brazil?
- Sanjay Tapriya** Brazil last year they did about 31 and this year we are talking about between 34 and 35.
- Satish Mishra** just recently there was a lot of news regarding decontrolling the sugar sector. What's you take on this?
- G. S. C. Rao** See the decontrol is definitely debated and it has been discussed at the ministerial level even with Deputy Chairman of the Planning Commission and our concerned ministers, Sharad Pawar Ji, the Finance Minister and the Home Minister. The whole thing is that the deregulation is one of the single most important things that has to happen to this industry to get out of the cyclicity or many things which are going to be coming in terms of investment in terms of lot of growth in the industry which government decides. But they want to watch the sugarcane planting this year and see what is the expected sugarcane production. As an industry we are really pushing it hard at least by September October when the new sugar year starts the deregulation should happen then only the industry will get out of the levy obligations and subsidizing the whole things will go. So we expect that there should be a positive move from the government September onwards.
- Satish Mishra** Okay fine thanks a lot sir.
- Moderator** Thank you Mr. Mishra. Sir there appears to be no further questions from participants.
- Sanjay Tapriya** So we can close the conference.
- Moderator** Sir would you like to add a few comments before we close?

G. S. C. Rao

I would add three four points. One is the about the company. We have a very optimistic future to look at it. We are continuing our refining at corporations in the off campaign period. We are looking at the exports of our extra neutral alcohol which will be a new line and will grow further and looking forward to ethanol blending program. Then our plant and machinery are best utilized for the cogeneration and ethanol apart from sugar. Then our refinery at Kandla is in place and is going strong and going in time as scheduled. We expect that it will give a benefit to the company in a way that it will address all the aspects of cycles whenever it happens. We are going ahead with our marketing division in specialty sugars. We have introduced brands under premium segment and IMFL exports we are making a headway. This is about the company. As regards the industry in general the key drivers are the area increase of sugarcane to the extent of 25% in planting and overall about 15%, yields are expected to be better in view of good monsoon, the imposing of custom duty on white sugar will stabilize the domestic market; deregulation is about to come which is being discussed at the government sectors; the ethanol blending program same way it is in the discussions and it is agreed. Its only implementation issue and prices below 32 will hit the farmers, that message has gone very clearly to the government, therefore, there will be a situation where the sugar prices will be supported, it will not be pushed down as it happened a few months ago. Because the cane price has to paid to a level where farmer will cultivate sugarcane. These are the things which we feel and I want to add this at the end of the discussion.

Moderator

Thank you sir.

Sanjay Tapriya

Thank you participants for sparing the time and discussing about the company, you can always approach us for any further questions and clarifications if required, thanks a lot

Moderator

Thank you gentlemen of the management team. Ladies and gentlemen on behalf of Simbhaoli Sugar that concludes this call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.