

The Simbhaoli Sugar Mills Limited
Analysts/Investors Conference Call
August 2, 2006

Moderator

Good evening ladies and gentlemen. Welcome to the Simbhaoli Sugars Conference Call.

Dr. G.S.C. Rao

Good evening gentlemen. My name is G.S.C. Rao. I am the Executive Director of Simbhaoli Sugar Mills Limited. Simbhaoli Sugars is a 70-year old company in the business of sugar, alcohol and power generation. It has been in this business for a long time and it is expanding with six projects on the cards. Simbhaoli Sugars is different from other sugar companies because of the nature of the product it makes. The sugar made in this company is 'refined sugar' which is of international standards and mostly below 45 ICUMSA. It is fit for export in international market. The company has got a premium in the sugar market because of the specialty products, we make out of the sugar. The types of specialty sugars we make are cube sugar, demerara, pharma grade sugar and many others. We have pride to tell that we have certification of ISO 9001, 14000, and HACCP, which is stringent food hygiene aspect. The Company currently has a 9500 tons capacity at Simbhaoli and 3800 capacity at Chilwaria and 90 KLPD ethanol and portable liquor plant of distillery at Simbhaoli. The company has been performing well for the last two years and it is going with a good pace. We have six projects on hand. The Chilwaria plant is expanding from 3800 to 6600. The new ethanol distillery at Chilwaria has come up as well. The expansion of Simbhaoli distillery from 60 to 90 kls has already taken place. The new sugar plant, which is a state of art sugar plant, is coming up very near to Simbhaoli, at 28 KM from Simbhaoli towards Delhi, at a place called Brijnathpur which is fully automated refinery with state of art technology. We have two cogeneration projects coming up at Chilwaria as well as Simbhaoli. One is at 19 MW surplus at Simbhaoli sugar division, which is upgraded from 5 MW of the present capacity. Another one is coming up at Chilwaria having a capacity of 20 MW surplus. After the expansion is over, these cogeneration, ethanol and potable segments will contribute to nearly 45% of our revenues and 55% will come from sugar. This refinery is the only integrated refinery in the country where we can make raw sugar, refined sugar, and both, we can import raw sugar and process it, we can export high quality sugar and give it to the institutions or we can export it. This is a brief about Simbhaoli. Now I would request my colleague, Director of Finance, Mr. Sanjay Tapriya to tell you about Q1 financial results.

Sanjay Tapriya

Good evening. Simbhaoli has completed its first quarter of FY07 and shown healthy results. We achieved a total turnover of Rs 216 crore, which is 20% higher than the corresponding quarter of the previous year. The profits before tax is 7.6% higher than the previous quarter and profit after tax has also increased by 23.6%. The increase in the profit is inspite of the fact that the Company sold less sugar during this quarter, however the realization per quintal remains high. In fact, we sold 18% less sugar than the previous quarter. During this quarter, the Company also processed raw sugar, which it had imported in the last season and to the extent of 40,000 MT and carrying a good quantity of sugar stocks for the future.

Moderator

Thank you very much sir. We will now begin the Q&A interactive sessions.

Surendar Singh

What is the level of export liabilities that you have as on June on your books?

Sanjay Tapriya

Presently, we have a remaining obligation of about 62,000 metric tons out of the total obligation of about 100,000 metric tons. The balance 38,000 MT has already been exported out and or in the process of being loaded at present. So, 62,000 MT of obligation is left over for future.

Surendar Singh

That needs to be completed by 2008.

Sanjay Tapriya

That needs to be completed by end of FY 2007.

Surendar Singh

Sir, would you be having the statistics for what is the sugar exported for the country as a whole and what will be the proportion that went to Pakistan. I believe Simbhaoli was also a major player in that.

Sanjay Tapriya

I believe in the last one year about 1.5 million tons of sugar has been exported out of country. Half a million tons out of it have gone to Pakistan.

Surendar Singh

Sir could you also tell me what is the level of raw sugar inventory that you hold as on June 2006.

Sanjay Tapriya

Zero. Everything has been processed.

Surendar Singh

Finally sir, what is the level of long-term debt that you have as on June 2006.

Sanjay Tapriya

Long-term debt will be about Rs 89 to 90 crore which includes the fresh debt which we have taken in this quarter for ongoing projects.

Moderator

Next, we have Avni from Keynote Capitals.

Avni

Good evening sir. Your expansion project of the Chilwaria ethanol project was supposed to commence on July 2006. So what is the status on that?

G.S.C. Rao

The Chilwaria ethanol project is totally complete. However, when we were processing raw sugar, our sugar factory seasoned boilers were working. So, we had shutdown for its maintenance. As soon as its maintenance is over, we can start up the distillery.

Avni

So, when is the expected time?

G.S.C. Rao

We expect that we will be ready to start by first week of September.

Avni

And what about the Brijnathpur sugar plant.

G.S.C. Rao

Brijnathpur sugar plant is going absolutely according to schedule.

Avni

So, you are expecting it to start by November.

G.S.C. Rao

November 15 is our target.

Avni

Can I get some statistics regarding the cane crushed in this current quarter corresponding to the quarter FY06?

G.S.C. Rao

Our last full season's figures are about 110 lakh quintals of cane crushed in Simbhaoli and 52 lakhs quintals of cane crushed in Chilwaria. Most of the activity in the season was on the raw sugar because the extended season was on the raw sugar at both the places.

Avni

What about the power sold?

G.S.C. Rao

Power sold is about 83 Lakh units at Simbhaoli and about 10 to 15 lakh units at Chilwaria.

Avni

Can I get the details of the sugar produced?

G.S.C. Rao

We have made about 12.41 lakh quintals in Simbhaoli and about 8 lakh quintals in Chilwaria. That includes our raw sugar processing also.

Avni

Can I know whether any customers have been added in this quarter?

G.S.C. Rao

Our more focus is on institutions as well as the specialty sugar. We have added Sahara Airlines, Jet, and Kingfishers. Maurya and the ITC have also given us their design. In the pharma grade, deliveries have been made to Ranbaxy's group company and Wockhardt has also taken a delivery from us. We have a number of other clients in the sachet business.

Moderator

Next, we have Abhishek from Brics Securities.

Abhishek

I just missed the figure of the volume of sugar sold during the quarter. Can you please repeat it again.

Sanjay Tapriya

In this quarter we sold about 5.64 lakh quintals of sugar.

Abhishek

How much of it was trading compared with the manufactured product?

Sanjay Tapriya

This quantity does not include anything, which has been taken for the trading purposes. Traded sugar is over and above it; I will just give you the figures.

Abhishek

Sir, what is the quantity of goods purchased for trading?

Sanjay Tapriya

153,000 quintals of sugar has been purchased for the trading.

Abhishek

What is the closing stock at the end of this quarter?

Sanjay Tapriya

Closing stock was about 6.3 lakhs.

Moderator

Next, we have Sachin from Pioneer.

Sachin

This is regarding molasses. Could you tell as to what was the quantity of molasses sold during the quarter in both bazaars and what was the realization from the same?

Sanjay Tapriya

About 1,45,000 quintals of molasses have been sold from Simbhaoli plant. It includes the molasses transferred to our own sister unit, plus another 60,000 quintal from Chilwaria; so total becomes 2,10,000 quintals.

Sachin

And sir what would be the sort of realization we have achieved on an average?

Sanjay Tapriya

It will be somewhere around Rs 325 per quintal, net.

Sachin

How do the sales reflect compared to June 2005?

Sanjay Tapriya

It will be about Rs 60 to 65 or Rs 70 per quintal less.

Sachin

So, basically year-on-year there is an increase in molasses realization?

Sanjay Tapriya

No, this current quarter, it is less than the corresponding quarter of previous year. The molasses prices have been little lower in this period.

Sachin

Okay. Last year it was around Rs 400, this year is around Rs 325 on an average?

Sanjay Tapriya

Absolutely.

Sachin

How much bagasse have we sold?

Sanjay Tapriya

We do not have much quantity in bagasse because from Simbhaoli we did not sell the bagasse. We run the cogeneration plant during off-season and also this time we extended our season by 45 days to process the raw sugar we had imported in the last year. But sale of bagasse regularly take place from our Chilwaria plant and the current realization prices are nearly about Rs 650 per ton.

Sachin

I mean, these are same prices, which we transfer into the cogeneration division, sir?

Sanjay Tapriya

Absolutely, all transfers are done on a transfer-pricing basis.

Sachin

But sir, when you take sugar season FY05-06, of the total cane crushed, how much of these bagasse produce would you be looking in terms of conserving in-house and how much would you be selling outside?

Sanjay Tapriya

As a sugar plant, we generate nearly 30% bagasse on the cane we crush. Out of the 30% bagasse, in the Simbhaoli plant we save nearly 4% bagasse. In the Chilwaria plant we save 10 to 11% of cane.

Sachin

Could you give a break up of the volumes as to how much was sold towards levy and how much was in the open market?

Sanjay Tapriya

The quantity break up would be a little difficult to give as of now, as I have the total figure of sugar sale at present.

G.S.C. Rao

The bagasse in Chilwaria was not sold because we were doing raw sugar processing all the time and we have an inventory of about 8000 tons of bagasse even now. We are now looking forward to sell it, whatever we can. We never wanted to sell bagasse when raw sugar processing was going on.

Sachin

Sir, regarding accounting, do we net off the bagasse production from the raw material cost or do we take it as a part of the income?

Sanjay Tapriya

Molasses is being netted off from the cost of production. Bagasse is shown separately.

Sachin

Short in part of income basically?

Sanjay Tapriya

Absolutely.

Sachin

And what was the realization in sugar corresponding quarter last year.

Sanjay Tapriya

The sugar average realization of this quarter has been nearly Rs 1890 per quintal.

Sachin

And this includes levy or this is only open market?

Sanjay Tapriya

This is only for the free sale. Levy prices have been at Rs. 1325.

Sachin

And how was the scene last year compared to year 2005? What was it last year?

Sanjay Tapriya

About Rs 1725 per quintal or so.

Moderator

Next, we have Preeti from Quantum Securities.

Preeti

What have been the alcohol realizations in this quarter and the corresponding quarter last year?

Sanjay Tapriya

When you say alcohol, Preeti, we have a number of products in alcohol segment. We have IMFL, country liquor, etc.

Preeti

If you take out the average of everything, then can you just give me some kind of an average value?

Sanjay Tapriya

It would be nearly about Rs 37 to 38 per litre compared to last year's. Because of the product mix, the realization was about Rs 4 less than this.

Preeti

And sir, why have the margins gone down in the current quarter?

Sanjay Tapriya

In respect of?

Preeti

In respect of the overall operating margins. Like, previous quarter it was around 16% and currently it is 13.7%, and if we see the sugar margins, they have gone down from 15% to 11%. Is it only because of the low quantity of sugar sold?

Sanjay Tapriya

In the sugar, we have the traded sugar also included in it. So, if you exclude the traded sugar, the operating margin in the sugar is 13%. This 13% is comparable to 11.62% of the full year last year. So definitely, we have improved. Sugar has slightly gone down as compared to the operating margins in the first quarter of the previous year, because the carrying of the stock cost was lower in that quarter as compared to this quarter. Distillery's operating margins are at 6.2% as compared to 3% in the corresponding quarter and 6.1% for the full year as reported. So basically, they are substantially higher. Sugar definitely they are down by 1.2% largely because of higher cost of production resulted by higher cane prices.

Preeti

Okay. This quarter you have even paid higher cane prices I believe.

Sanjay Tapriya

It is not a function of this quarter, as I have said this is the function of at what value we are carrying the stock.

Preeti

Yes carrying, because it must have been carried forward from the previous quarters?

Sanjay Tapriya

Absolutely.

Preeti

And sir going forward if you see, what do you expect the OPM levels to be, like the current year-end it was around 14.3%. So do you expect it to improve or it should be under pressure or something due to the cane prices or recovery part of the sugar.

Sanjay Tapriya

See, last year, a particular phenomenon which was witnessed in the western U.P., and which was common to most of the factories in West U.P., is that the sugar recovery remained under check because of number of agro- climatic reasons. So, we are not seeing this phenomenon to be in this year again and the recoveries are going to be better. So, definitely the operating margins are not going to be lesser than 14 to 15% in this full year, and I am assuming that the sugar prices are what they are today, they will continue to remain at this level, i.e., the current realization which we are having in the current quarter

Preeti

And sir, what has been the recovery rate in this particular quarter, if you could tell me?

Sanjay Tapriya

In July, Simbhaoli plant had operated for 15 days or so and during this period we had a recovery of about 9.9 to 10%, but the quantum of the crushing was lower.

Preeti

And the other income has also increased substantially in the current quarter. The figure of other income has gone up to Rs 14 million. Is there any specific reason for that?

Sanjay Tapriya

The other income includes largely the interest, etc on the deposits.

Preeti

And as far as the capex plans, I believe all the expanded capacity will be placed by 2007 and so FY08 would be the first full year of utilization of full capacity.

Sanjay Tapriya

This financial year, we will be utilizing at least sugar and distillery expanded capacities to a major extent, and in the next full financial year the entire power generating also will be added to it. So, first full year of the expanded capacity will be 2007-08, but entire sugar capacity and the part of the expanded capacity will be available in the current financial year also.

Moderator

Next in line, we have Abhishek of Brics Securities.

Abhishek

I was just trying to reconcile, you have an opening inventory of 13 lakh quintals including the raw sugar and you have purchased 1,53,000 quintals of trading sugar, and you sold 5.64 lakh bags and you have even a closing inventory of 6.3 lakh bags, but that does not reconcile the 6.3.

Sanjay Tapriya

It will never reconcile because 5.64 does not include these traded sales.

Abhishek

So, is it, 1,53,000 quintals have been totally sold?

Sanjay Tapriya

Except for 65,000 quintals, everything has been sold.

Abhishek

Are you carrying any raw sugar, which is yet to be processed?

Sanjay Tapriya

Yes, some quantities.

Abhishek

Does this 5.64 lakh quintals include levy sugar also?

Sanjay Tapriya

That includes levy sugar as well.

Moderator

Next is a follow up question from Surendar of Anand Rathi Securities.

Surendar

Mr. Tapriya, could you please provide us the break up of the distillery revenue of this quarter with respect to the previous quarter in terms of IMFL, country liquor and spirits division?

Sanjay Tapriya

Rs 6 crore is turnover of IMFL, against Rs 2 crore of the previous quarter. Country Liquor turnover is Rs 56 crore, as against Rs 50 crore of last quarter. Ethanol's turnover is Rs 2.5 crore, vis-a-vis virtually zero. Turnover of rectified spirit is Rs 5 crore, vis-a-vis the same amount last year, and there is an ENA and other spirits, together of Rs 4.1 crore, vis-a-vis Rs 2.21 crore in the last quarter.

Surendar

Sir, have you received any confirmation from the oil companies regarding the re-negotiation of the price for ethanol.

G.S.C. Rao

Re-negotiation on the price of ethanol is going on. You must have read in the paper that concerned ministry says it will be decided this week. Our association has been talking to them. Three rounds of meetings are over, and still we have not reached an agreement so far.

Surendar

You have an export liability standing on the books, and currently it has been banned, and we have to re-export it by 2007 and so. In that scenario, how do you think the Company will be able to operate there?

G.S.C. Rao

There are two options for us. One is the export ban will be lifted for all those people who have got obligation under advance license. That is most likely, and we have been assured and reassured by our ministry. Unfortunately, so far, the advance licensing is not taken out

from export ban. Secondly, it has been realized that it is not a right move to ban the export at this time when we are expecting 230 lakh tons of sugar production next season. Right now, there is temporary set back, which is where correction has to be done, and we expect that in coming months it will be done. As soon as the ban is removed or we are permitted, we are ready to export the sugar.

Surendar

Right sir, assuming it is lifted by let us say October, you still have about five or six months in which you have to remove all the export liabilities from your books.

G.S.C. Rao

We have got liability up to 2007 August. One full year we have. By that time we will lift export.

Surendar

We are hoping to export about 2.5 to 2.7 million tons in the coming export season. Given the geopolitical scenario, do you think Pakistan would be one of the viable customers and if so 2.5 MT is achievable?

G.S.C. Rao

That is exactly the option we are looking. We are not dependent only on Pakistan like some other sugar mills. We are having queries from Southeast Asia for their 45 ICUMSA. We see opportunities there, other than in Pakistan or Sri Lanka, to other countries where European sugar used to come earlier. Because of this unfortunate ban, the whole process has stopped. We are not really dependent on Pakistan.

Surendar

But, as a country as a whole, you think 2.5 to 2.7 MT is achievable.

G.S.C. Rao

It is achievable, definitely. Had there been no export ban, we would have been a real good player. By this time we would have exported good quantities. There was a lot of activity and there was a lot of momentum that was gathering and this has only put the break on that.

Surendar

Could you please update us on the status of Cargill joint venture that you have for the purpose of exports?

G.S.C. Rao

Yes, I think we will be exporting through them. We have earlier done export through them and we are contracting them for the future. We have a good relation and we will continue to do business with them.

Moderator

Next, we have Srishanker from ILF&S.

Srishanker

First you say in Simbhaoli it is 9500 TCD. For the next season also we are still sticking to 9500 TCD only. You are not planning any expansion there?

Sanjay Tapriya

No Simbhaoli is not a 9500 TCD capacity plant. Simbhaoli is having two sugar plants, one is 9500 and another is at 3800 TCD. In the next season, we will be running three sugar plants and the total capacities of all the three plants put together will be 20,100 TCD.

Srishanker

I was talking about at Simbhaoli. At Simbhaoli it is 9500 TCD only.

Sanjay Tapriya

That is right, Simbhaoli capacity is 9500 TCD.

Srishanker

And in Chilwaria, you have expanded from 3800 to 6600.

Sanjay Tapriya

You are right.

Srishanker

And when is this expansion going on stream, when is it going to be commissioned?

Sanjay Tapriya

When we start of the plants in November.

Srishanker

Okay. That means, it will be available for the current season.

Sanjay Tapriya

Yes.

Srishanker

Okay, and about Brijnathpur?

Sanjay Tapriya

Brijnathpur will be by mid November. So, there will be about 7 to 8 days of overlapping, that is all.

Srishanker

And the capacity is?

Sanjay Tapriya

Capacity in Brijnathpur will be 4000 TCD.

Srishanker

Do you expect around 140 days crushing in Brijnathpur in the current year.

Sanjay Tapriya

We expect 165 days crushing in Brijnathpur.

Srishanker

You expect 165 days. Can you give some idea, how many days of crushing we had in Simbhaoli and in Chilwaria in the current season?

Sanjay Tapriya

183 days in Simbhaoli and 164 days in Chilwaria.

Srishanker

What is the average cane price that we ended up paying both in Chilwaria and in Simbhaoli, and this is for both varieties of cane, it is inclusive of all the taxes and subsidies, etc.

Sanjay Tapriya

The average cane price inclusive of freight, subsidies, and everything put together, Simbhaoli is about Rs. 130 per quintal and Chilwaria is about Rs. 125 per quintal that we have paid.

Srishanker

This is for the year as a whole.

Sanjay Tapriya

I am talking for season as a whole, and the year also will be more or less the same.

Srishanker

You are talking about your expansion at Simbhaoli in the distillery from 60 to 90 KLPD we have already got. The capacity of power which was 5 MW has now increased to 16 MW.

Sanjay Tapriya

The capacity of the power which was 5 MW surplus will be going upto 19 MW surplus at Simbhaoli.

Srishanker

That is exportable?

Sanjay Tapriya

Yes.

Srishanker

You expect this to be operational only during season or off season also?

Sanjay Tapriya

By January to February 2007 is the target.

Srishanker

By January-February 2007, it will be operational.

Sanjay Tapriya

Yes. So, our idea is that within this current season, we will definitely be having about three months of power generation.

Srishanker

Do you plan to run this only during season or also during off-season?

G.S.C. Rao

In Simbhaoli, the normal season is about 160 to 170 days, and it is an integrated refinery. We will be producing white sugar from raw which we will be processing after the cane crushing operations of the season is over.

Srishanker

But that depends upon the delta that is available in white and raw.

G.S.C. Rao

No, we will be producing some raw sugar along with refined, within 9500 TCD capacity. The raw, which we produce over and above refined sugar, will be processed in continuity of the season, and that raw when it is processed during that time, the export of power will be happening at about 10 MW. In the season if it is 19 MW, it is a 10 MW during the off-season. That will add up to the total duration of the power export. So, that will be about nearly 45 to 50 days depending upon the quantity of raw we have and bagasse we have surplus. So, we expect that 170 days plus other 50 days is about 220 to 230 days.

Srishanker

How much is the present capacity at the distillery in Chilwaria? Your capacity of power is going to be 20 MW exportable in Chilwaria. When is Chilwaria expected to go operational in power?

G.S.C. Rao

Chilwaria power export will be sometime in December.

Srishanker

December 2006?

G.S.C. Rao

December 2006, it may be 10-15 days this way or that way. Our internal target is to start it by December 1, 2006. But, we will definitely be able to start during December 15 to January 1.

Srishanker

What is the distillery size there?

G.S.C. Rao

The 60 KLPD distillery is ready in all respects. We have taken water trials. We are waiting for sugar factory boiler to be ready, which has worked up to June 22 for raw sugar processing. It is under maintenance and as soon as this maintenance is over, we will start the boiler and then distillery will start operation.

Srishanker

What is the capacity of the distillery?

G.S.E. Rao

60,000 liters per day.

Srishanker

That is 60 KLPD. And in Brijnathpur it is only straight sugar.

G.S.C. Rao

No. In Brijnathpur, sugar factory is coming up and along with that we have started constructing Brijnathpur distillery also. That distillery will be ready by March 2007.

Srishanker

And its size is?

G.S.C. Rao

That is again 60,000 litres per day. It is replication of what we have done in Chilwaria.

Srishanker

What is the size? And there is no power plant over there?

G.S.C. Rao

Right now, we are not constructing power plant. We will take all surplus bagasse to Simbhaoli which is only 25 KM and keep running the power plant there. At a later stage, we may add up the cogeneration here also.

Srishanker

Okay, if I understand clearly, the key in the power generation is that we are up to about 6600 TCD over here and your exportable surplus you are targeting 20 MW of power. What is the boiler that we are talking about? How much of steam that we can generate?

G.S.C. Rao

We are adding two boilers of 80-ton capacity each, they will be at 87 ata, and we have one 75-ton capacity boiler, which is at 42 ata. So, the combined capacity of all these boilers, in the compilation is 235 tonnes and the configuration is three total boilers, but 50% of the 75 metric ton boiler will go on condensing mode. So that is an extra power we will get, and for 286 TCH crushing, about 143 tons of steam is required. This 143 tons is enough to run the sugar plant, so we will give steam to our distillery as well as we will put more into the condensing mode. As we expand, we will further utilize the steam capacity. And in the off season, we do not run this 87 ata boiler, we will only run the 75 ton boiler to generate power and to supply to distillery.

Srishanker

That is in Chilwaria?

G.S.C. Rao

Yes.

Srishanker

What about in Simbhaoli?

G.S.C. Rao

In Simbhaoli, a straight back pressure turbine of 22 MW will be installed alongwith existing 12 MW turbine. One 75 ton 42 ata boiler is there, another boiler is coming with 110 tonnes with 87 ata. This 185 tons of steam requirement will be fulfilled from these two boilers.

Srishanker

Because, when I look at 110 plus 75, we are barely making it.

G.S.C. Rao

No, the model of Simbhaoli is little different. This is where we really score on technology. 9500 ton capacity of the Simbhaoli is planned in such a way that when cane is available during the season, we will do raw sugar as well as refined sugar combined. The raw sugar steam requirement is at 36% and refined sugar requirement is about 45%. Raw sugar plant is at 2000 ton capacity and 7500 ton capacity is refining. Therefore, you find the steam calculation a little different.

Srishanker

What is the price you think that you will end up for paying for cane. When we talk about Simbhaoli and Brijnathpur and Chilwaria is different, eastern U.P., you may not have the

pressure, but in western U.P. you will find the pressure. So, what is the cane price that you are expecting to pay in the current year.

G.S.C. Rao

This is a little difficult to guess. Rs.128 per quintal which we paid last year will be definitely a bench mark, and we expect that we may end up paying in the same as Rs.128 or 130, may be another two to three rupees more.

Srishanker

But, I mean just now you yourself have given me the figure, that you ended up paying closer to Rs 136.

G.S.C. Rao

Whenever I say cane price, the taxation or the transport and other things are not included. Rs.136 we are giving the total figure. What I am saying is what the farmer is going to get. Society commission, purchase tax, all these things will be the constant factor. So, I have not included that when I say Rs.128 plus two to three rupees.

Srishanker

Even a Rs. 8 increase or Rs. 5 increase in cane cost, the kind of increase in margin that you need to get from sugar is going to be that much higher?

G.S.C. Rao

No, the very reason of our diversification is the cane till now is paid by sugar only. Now, we are trying to get the cane price paid from our power as well as ethanol.

Srishanker

I agree Mr. Rao. But, the only advantage you have there is because you do not pay tax for the power.

G.S.C. Rao

It is a bi-product utilization.

Srishanker

Yeah, otherwise it anyway goes to the molasses you sell or you convert into RS. Because ethanol prices are there, your downward spiral because of a glut which you expect next year in terms of molasses will be protected, isn't it?

G.S.C. Rao

We are branching out into value added products like IMFL, which is going to give revenue to us. IMFL is an area where we can pursue more. Then, in country liquor we have increased our sales quantity and that is also a value addition to us. That is two things which you do not find with any normal ethanol distillery. Second is the cogeneration of power, which will give from 5 MW to 19 MW. Third, and most important thing, which we are pursuing as a business strategy is that we will be concentrating to sell more and more sugar to the institutions regular contract that will give us premium than the normal commodity. Most of the average

prices get affected by the commodity fluctuation, and in surplus environment that will have more affect. Further, as and when the ban on exports is lifted, we have advance license and we will have edge over the normal exporters. We will put sugar more on to the board so that we will get better realization outside, if at all the international markets are maintained as it is today.

Neerav

My first question is related to the export market. As we read today in the newspaper that the sugar that has been out of the mill before June 23, would be allowed to export. Can I know how much sugar was out of our mills for exports before June 23.

G.S.C. Rao

6500 metric tons.

Neerav

In which country were we exporting this?

G.S.C. Rao

We export most of the sugar from the export houses like Cargil, etc. It is generally their choice that to which country they want to take the sugar. This sugar will be definitely going to Yemen.

Neerav

What is our target crushing for the next season?

G.S.C. Rao

Overall crushing we would like to do nearly over 25 lakh tons.

Neerav

And sir, any plans to import raw sugar, any further?

G.S.C. Rao

Well at this price which is nearly about 15 cents per pound, it is not very much viable to import the raw sugar at present. But, I believe the moment price touch of the south of 14 cents or so, we will be showing interest, depending upon white prices.

Neerav

What is the split between the raw and white are we looking, before we start importing raw sugar?

G.S.C. Rao

The present spread is good. On the spot it is about \$100 and for the future it is about \$88 to \$90. But important thing is that the domestic price arbitrage cannot be taken. That is why it is not being considered at present.

Neerav

What is the power consumption norm, i.e., the power consumption for a ton of cane crush?

G.S.C. Rao

The power consumption for a ton of cane is at 23 KW per ton.

Neerav

And how much power is produced to a bagasse, per ton of bagasse?

G.S.C. Rao

The power generation depends on whether you are using in back pressure mode or condensing mode. If you are using in a condensing mode where entire exhaust is condensed and the power generation is more, there point is 0.625 KW per ton of cane

Neerav

And if it is a back pressure?

G.S.C. Rao

I don't have the exact figure as of now. I will definitely get back to you on this.

Neerav

No problem sir. Thank you sir.

Moderator

Next, we have Dipen Seth from Wealth Management.

Dipen Seth

My primary worry or concern on the company right now is that you are still operating at sub-profit margins for a sugar company. Even for the last quarter or consistently for the last few quarters compared to the better benchmarks in the industry. Now, here is a company which is supplying mostly to institutions, which is doing more value addition on the alcohol front, which is aggressively growing its power capacities. Going forward, should we expect a better set of margins or not?

Sanjay Tapriya

This quarter's margins have not been really the way it should have been. It is primarily because of the lower sugar yield that we got in the last season.

Dipen Seth

Yes, that is sure. The stocks of sugar that you sold would have produced at a high cost.

Sanjay Tapriya

The cost of the sugar has been high. Whereas the sugar price on which we have sold the sugar is definitely better, all the factories put together at Rs 1890 average.

Dipen Seth

Absolutely. Because the best realizations that I would expect in your area, or at least if I combine eastern and western U.P. realization would be 1850 or so.

Sanjay Tapriya

Absolutely, but the companies we want to be compared to, as a difference we said that they have bigger capacities so the production costs are allocated on many more number of bags. In our case, in the next season onwards, when we will be producing 26 to 27 lakh quintals of sugar, then definitely the cost of production will be lower. I am not seeing that that this recovery of 9.26% in the western U.P., particularly with reference to Simbhaoli to be repeated again, because this is the lowest I have ever seen in the last 20 to 25 years.

Dipen Seth

How do you explain these low recoveries?

G.S.C. Rao

The sugar recoveries are a very, very complicated subject. The climate plays a very big role in sugar cane ripening and last year in west U.P., very unusually, there were two problems, one is man made and another is the nature. The sugar cane crop was severely affected because of delayed rain and there was a pest and disease attack, and by the time the industry took the corrective measures, the damage had already been done. All of the factors in Western UP were in a big fear of losing cane, and we started factories very early, you know like we started on 12th of October.

Dipen Seth

Yes, typically you would not start before the onset of November.

G.S.C. Rao

Normally we used to start in third week of November, then we switched over 15th and first week, and then we used to get a lot of early variety, when we developed early variety like COJ-64 and then we used to take advantage of that. Only COJ we used to harvest and get the crop and that used to have a higher initial recoveries compared to the late varieties. What happened last year, with new factories coming up, we developed a fear. We thought of taking any cane that is available. So early variety select to harvesting is not done. Then we started getting low recoveries in the beginning and that recovery never picked up after that. This year, the cropping area has increased, the factories whatever has to come in west U.P. have. So, I think we have gone through the worst year in West. So, we want to start a little late, somewhere in the first week of November and we have taken all precautions for the cane to be protected so far.

Dipen Seth

So far, it looks like we have a reasonably decent monsoon.

G.S.C. Rao

Yes.

Dipen Seth

I would like to know what is the total debt on the books of the company not as of now, because I do remember you mentioned that you have about 89 or 90 crore of long-term debt on your books right now including the debt that you had taken on for financing the project, but outside of that, even working capital, which will progressively get liquidated over this quarter; so let us say at the end of September 2006, long-term, short-term *altogether*.

Sanjay Tapriya

Working capital borrowing will be negligible at that point of time, as most of the sugar stocks for that had been exhausted. And on top of it, against Rs. 89 crore I will be negotiating another Rs.15 to 20 more for completion of the project.

Dipen Seth

Rs.115 crore, plus FCCB?

Sanjay Tapriya

Plus FCCB, that is right.

Dipen Seth

Currently that stands in crore, how much would that work out today?

Sanjay Tapriya

FCCB is about Rs.150 crore.

Dipen Seth

I do not see that FCCB getting converted in a hurry, sir.

Sanjay Tapriya

Let it take its own time.

Dipen Seth

Yes, because the conversion option given there is Rs170.

Sanjay Tapriya

Rs. 170.

Dipen Seth

Okay. Why is Simbhaoli trading in sugar at all? I mean, why are you getting into the trading end of the business. You are a respectable manufacturer and where is this trading happening, is it international trading is it domestic, what is it?

Sanjay Tapriya

Most of the trading that is happening is international trading.

Dipen Seth

And why are you doing it, if I may ask?

Sanjay Tapriya

Because it is making a business sense for us to do it. Simbhaoli had an obligation of 100000 tons of sugar to be exported. Being in a land-lock State as an U.P., it means all sense for us because we buy cheaper from the places near the coast and then export.

Dipen Seth

You do not have any obligation which says that you should export only the sugar that you manufacture?

Sanjay Tapriya

Most of the sugar which has been imported, this has been imported with a criteria of ton to ton basis.

Moderator

Next, we have Deepak from Impetice Advisors.

Deepak

Are we through with all the fund raising for the currently ongoing CAPEX?

Sanjay Tapriya

Yes, we have nearly achieved the financial closing, but for one or two sugar development fund loans which are in pipeline.

Deepak

And do we foresee any problem on availability of cane going forward?

G.S.C. Rao

I do not think that there should be, cane availability problem for two reasons. One is that cane area per se has increased in the existing factories in Chilwaria and Simbhaoli, and the yield should be better this year compared to last year. Then Brijnathpur fortunately is located in area where cane growing is already there, only thing is we have to start the factory in time and take up the cane. So, there is a lot of enthusiasm in the farmers, the higher price we paid and good payment last two years and then cleared all arrears of 2003 and 2004 in Chilwaria. So, we encouraged the cane area to grow from nearly to 24,000 hectares which we had last about 14,000 hectares, about 10,000 hectares increase is there. So, we do not see any problem in the cane growing.

Deepak

How much, if you can give me the comparable figure for the crushing capacity? The total in this cane belt?

G.S.C. Rao

We expect a total production of sugar this year to be around 21 lakh tons next year, as against last year about 18.5 or 19 in west U.P. In east U.P. we will have again 20 to 21 lacs MT, as against more or less same in capacities last year.

Deepak

No, I was talking about the crushing capacity.

G.S.C. Rao

We had 14,000 hectares of cane area in Chilwaria, as against in 3800 TCD we have crushing capacity, we will be doing 6600 TCD this year, and 24,000 hectares of cane area we will have this year.

Moderator

I would like to hand over the floor back to Mr. Sanjay Tapriya and Dr. G.S.C. Rao of Simbhaoli Sugars for final remarks.

G.S.C. Rao

Thank you gentlemen for being with us for the last one hour and we really enjoyed talking to you. We look forward to answer any query about the company and we will always be willing to tell you and share the information required by you. We are going ahead with our growth path and we expect that with the time things should improve and we will live up to your expectations and expectations of the people who are investing in our company. Thank you very much.

Sanjay Tapriya

Thank you very much, if you have any other questions, you can definitely contact us through telephone or e-mail, and we will be very happy to give you the answers to the best of our ability. Thank you.