Dhampur Bio Organics Ltd.

Date: January 30, 2024

To,

The Manager – Listing
Dept of Corp. Services,
BSE Limited
P.J. Towers, Dalal Street, Fort,
Mumbai – 400 001
Scrip Code: 543593

The Manager – Listing
National Stock Exchange of India Ltd.
Exchange plaza,Bandra Kurla Complex
Bandra East
Mumbai – 400 051
Symbol: DBOL

Dear Sir/Mam,

Sub: Transcript of Earnings Conference Call held on January 22, 2024

In compliance with the regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the Transcript of Earnings Conference Call on unaudited financial results for the quarter and nine months ended December 31, 2023, held on Monday, January 22, 2024.

In Compliance with the Regulation 46, the same is also available on the Company's website i.e. www.dhampur.com.

You are requested to take the above information on record.

Thanking You

Your Sincerely,
For Dhampur Bio Organics Limited

Ashu Rawat

Digitally signed by Ashu Rawat
Date: 2024.01.30 15:42:13 +05'30'

Ashu Rawat
Company Secretary & Compliance Officer

"Dhampur Bio Organics Limited
Q3 FY24 Earnings Conference Call"

January 22, 2024

MANAGEMENT: **MR. GAUTAM GOEL – MANAGING DIRECTOR**
MR. NALIN KUMAR GUPTA – CHIEF FINANCIAL OFFICER

MODERATOR: **MR. NAVIN AGRAWAL – SKP SECURITIES LTD.**

Moderator: Good day ladies and gentlemen and welcome to Dhampur Bio Organics Limited Q3 FY24 Earnings Conference Call.

As a reminder, all participants' 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 this conference call, please signal an operator by pressing "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Navin Agrawal – Head, Institutional Equities. Over to you, sir.

Navin Agrawal: Good afternoon ladies and gentlemen. It's my pleasure to welcome you on behalf of Dhampur Bio Organics and SKP Securities to this Financial Results Conference Call.

We have with us Mr. Gautam Goel – Managing Director and Mr. Nalin Gupta – CFO.

We'll have the "Opening Remarks" from Mr. Goel followed by a Q&A session.

Thank you and over to you, Gautam.

Gautam Goel: Thank you Navin. Good afternoon, everyone and thank you for joining us on this earnings con-call to discuss the "Operational and Financial Performance" for the Quarter and nine months ended 31st December 2023.

The Company's "Results and Investor Presentation" have already been uploaded on the stock exchanges and the Company's website and we hope you have had the opportunity to go through them.

I will be covering the "Major Policy Decisions" on restricting the diversion of sugar in ethanol and its effect on us as an industry and Company, along with the "Key Operational Highlights" for the Quarter. Our CFO – Nalin, will then give an update on the "Financial Performance" of the Company.

The uneven and reduced rainfall in the cane growing regions of Maharashtra and Karnataka and the resultant reduction in yields for 2023-24 and the potential for further reduction in the area for 2024-25 in this region would substantially reduce the availability of sugarcane and thereby sugar in the country. This, coupled with the high international sugar prices, the Government of India took a cautious stand and curtailed the diversion of sugar into ethanol by restricting the procurement of ethanol from juice and B-heavy. The Government capped a diversion of 1.7 million tonnes of sugar by way of juice and B-heavy derived ethanol. As per the latest data, the quantity of juice derived ethanol which has been accepted in the tender has been revised to 43 crore liters as against 136 crore liters – a reduction of about 68% – and B-heavy derived ethanol has been revised down to 115 crore liters from the tendered quantity of 130 crore liters, a 12% reduction. Our current estimates of net sugar production, i.e., post diversion of about 1.7 million tonnes of sugar is in the region of 31 million tonnes of sugar, (+/- 0.5) million tonnes. We estimate Maharashtra to produce around 9.5 million tonnes and Karnataka to produce about 4.5 million tonnes, up from about 8.5 million tonnes and 4 million tonnes respectively, due to better-than-expected yields. We are estimating UP to produce about 11.2 to 11.5 million MT. (this is due to lower ratoon yields and substantial increase in diversion in West and Central-Western part of UP).

The domestic consumption is estimated at 28.5 million tonnes, and this should result in our closing stock to increase by about 2.5 million tonnes, in the region of about 7.5 million tonnes. Going forward, the key factor to watch would be the overall planting in Maharashtra and Karnataka regions. It is estimated a further reduction of about 20% from this region. In such an event, we are inclined to believe that the Government of India will further restrict the diversion towards ethanol to ensure adequate sugar supply for the 2024-25 season.

Our efforts to keep ourselves abreast with potential developments that could have a material impact on our business have helped us put in place a strategy to minimize the diversion of ethanol into sugar. We believed that in the event of a potential reduction in sugarcane acreage, the Government of India will mandate a reduction in diversion. We, therefore, took steps to augment our boiling house capacity as well as reinstate our C-molasses manufacturing capacity in both our Meerganj and Mansurpur units. This year, we refrained from tendering for any juice derived ethanol as compared to the previous year wherein we had diverted about 0.6 million tonnes of cane towards ethanol. We were also cognizant of the additional loss on B-heavy as compared to C molasses due to the UP-Government’s levy on molasses policy. Initially, we had planned to manufacture C molasses from about 35% of our crushed cane. These numbers will change with more cane going towards C molasses due to the restrictions on diversion of sugar to ethanol.

These factors will result in a substantial reduction in ethanol production in this sugar year. The same is reflected in the sales figure for ethanol in the current quarter, which has experienced a declinefrom 17.35 million BL from the previous year's 25.06 million BL during the same quarter. Even though the prices for ethanol supplied from various sugar sources or the alcohol year 2023-24 are yet to be announced, the OMCs have announced an incentive for ethanol derived from C molasses of nearly Rs. 7 per liter, thereby increasing it from Rs. 49.41 per liter to Rs. 56.28 per liter. The price of sugar juice and B-heavy derived ethanol remains unchanged at this point at about Rs. 65.61 per liter and Rs. 60.73 per liter respectively.

The Government has also imposed a levy of 50% on molasses exports to increase the availability of feedstock for the ethanol program. The Government continues to encourage usage of food grains with the added impetus on maize for ethanol production as is evident in the rising prices of maize-derived ethanol, which has increased from Rs. 66.07 per liter to 71.86 per liter.

As mentioned in our previous call, the UP sugar industry had challenged the methodology for calculating the levy obligations of B-heavy molasses and the matter was sub judice. The industry had subsequently withdrawn its challenge, and as a result, we had to account for a one-time increase in our expenditure amounting to Rs. 20.52 crores of Q3 FY24 allocated towards levy obligations related to B-heavy molasses for the molasses year 2022-23. After adjusting for this levy obligation and a one-time income from sale of premises of Rs. 14.69 crores, our adjusted EBIT stood at Rs. 5.11 crores with an adjusted EBIT margin of 1.20% in Q3 of FY24, as against a reported negative EBIT of 0.72 crores and a reported margin of negative 0.17% in Q3 FY23.

In 9M FY24, the adjusted EBIT stood at Rs. 45.20 crores, with an adjusted EBIT margin of 2.56% as against a reported EBIT of Rs. 39.37 crores and the reported EBIT margins of 2.23%.

Our emphasis on cane development has resulted in a much-improved recovery trend with a gross recovery standing at 10.80% as of December in the sugar season 2023-24 compared to 10.39% during the same period in the sugar season 2022-23. This improved recovery will have a substantial impact on reducing the cost of production and mitigating the impact of the increase in cane price.

The FRP for 2023-24 was increased by Rs. 10 per quintal and now stands at Rs. 315 per quintal, linked to a recovery of 10.25%. The increase in SAP, the State Advised cane Price, was announced post our board meeting. The SAP has been increased to Rs. 370 from Rs. 350 per quintal for early variety cane, which is an increase of Rs. 20 per quintal. This would have increased the cost of production by Rs. 2.1 per kg of sugar, and the P&L would have had an adverse impact of Rs. 4.3 crores.

I now hand over the call to Nalin for an update on the financial performance.

Nalin Gupta: Thank you Gautam. Good afternoon everyone. I'll begin with "Standalone Financial Highlights" for Q3 and 9M FY24 followed by the "Segment Highlights".

Revenue for Q3 FY24 stood at Rs. 424.78 crores as against Rs. 693.79 crores in Q3 FY23. EBITDA for Q3 FY24 stood at Rs. 12.89 crores as against Rs. 34.01 crores in the corresponding quarter for the previous year. EBITDA margin for the quarter was at 3.03% versus 4.90% in Q3 FY23. Gautam has already highlighted the reasons for drop in margins, which is mainly on account of lower sales volume in both sugar and ethanol segments and additional levy for the last season.

EBITDA margin for the quarter comes to 4.41% after adjustments of one-time impact of additional levy and other income. Profit after tax for the quarter stood at a loss of Rs. 4.16 crores vis-a-vis Rs. 13.74 crores of profit during Q3 FY23.

We recorded a revenue of Rs. 1,766.54 crores in 9M FY24 with a growth of 2.05% from Rs. 1,731.12 crores in the same period last fiscal. EBITDA for 9M FY24 stood at Rs. 74.54 crores as against Rs. 97.31 crores in the 9M FY23. PAT for 9M FY24 stood at Rs. 7.60 crores versus Rs. 30.08 crores during the 9M FY23.

Now, moving to the segment highlights; beginning with the Sugar segment:

Revenue in the sugar segment stood at Rs. 237.80 crores in Q3 FY24 as against Rs. 568.13 crores in Q3 FY23. Sugar segment's contribution in revenue was at 47% as compared to 70% in the same quarter last year. Sugar segment EBIT stood at a loss of Rs. 9.17 crores in this quarter as against Rs. 10.75

crores of profit in the same quarter last year. We crushed 14.48 lakh tonnes of sugarcane during Q3 FY24 as against 14.10 lakh tonnes in the same quarter last year.

Sugar production in this quarter stood at 1.38 lakh tonnes against 1.02 lakh tonnes in the same quarter last year. We sold 0.31 lakh tonnes of sugar against 1.08 lakh tonnes in the same quarter last year. Average sugar realization stood at Rs. 40,142 per tonne in this quarter, up from Rs. 37,874 per tonne in Q3 FY23. Sugar inventory as on 31st December 2023 stood at 1.07 lakh tonnes, valued at Rs. 34,445 per tonne this year. Sugar inventory stood at 0.96 lakh tonnes, valued at Rs. 35,969 per tonne as on 31st December 2022.

We generated 99.73 million units of power in Q3 FY24 against 105.28 million units in the same period last year. We exported 37.48 million units at an average realization of Rs. 3.44 per unit in Q3 FY24 as against 49.58 million units at an average realization of Rs. 3.30 per unit in Q3 FY23.

Now, moving to Biofuel and Spirit segments:

This segment reported a revenue of Rs. 110.98 crores in this quarter as against Rs. 131.15 crores in Q3 FY23. Biofuel segment reported an EBIT of Rs. 7.25 crores as against Rs. 20.05 crores in the same quarter last year. Biofuel segment contributed to 22% of the total revenue as against 16% in Q3 FY23. We produced 195.05 lakh bulk liters of ethanol in this quarter out of which 168.94 lakh bulk liters were derived from B-heavy. There was no diversion towards syrup-derived ethanol in this quarter. In Q3 last fiscal, ethanol production stood at 245.64 lakh bulk liters with 165.5 lakh bulk liters derived from syrup and 67.75 lakh bulk liters derived from B-heavy.

Ethanol sales were at 173.47 bulk liters of ethanol at an average realization of Rs. 58.87 per BL in Q3 FY24 as against Rs. 250.63 lakh bulk liters of ethanol sales at an average realization of Rs. 58.81 per BL in Q3 FY23. Out of 173.47 lakh bulk liter sales in this quarter, 168.47 lakh BL were from B-heavy at an average realization of Rs. 60.04 per BL. Ethanol stock as on 31st December 2023 stood at 12.43 lakh bulk liters as against 5.58 lakh bulk liters as on 31st December 2022.

In the country liquor segment, we reported a revenue of Rs. 161.94 crores in Q3 FY24 as against Rs. 114.57 crores in Q3 FY23. Segment EBIT stood at Rs. 2.86 crores as against Rs. 1.45 crores in the same quarter last year. We sold 6.87 lakh cases of country liquor in this quarter as against 4.83 lakh cases in Q3 FY23. Average realization net of excise was at Rs. 280.15 per case as against Rs. 248.41 per case in Q3 FY23.

Our long-term loans stood at Rs. 238.27 crores as on 31st December 2023 as against Rs. 249.53 crores as on 31st December 2022. The Company has repaid long-term loans of Rs. 19.16 crores during the quarter. The long-term debt-equity ratio stood at 0.28 times. Net working capital stood at Rs. 253.13 crores as on 31st December 2023. The long-term and short-term rating of the Company continues to be assigned at A+ by CARE.

With that, I would request the moderator to open the floor for the questions and queries.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Darshit from RoboCapital. Please go ahead.

Darshit: I just needed an outlook on sugar prices and the entire sugar industry going forward in the next year or so.

Gautam Goel: The sugar industry outlook, with this change in Government policy, we don't anticipate any sugar deficit happening for this year and for the next year. The sugar production numbers are in the region of 31 to 31.5 million tonnes. And this would increase the opening stock next year or closing stock this year by about 2.5 million tonnes, in the region of 7.5 million tonnes. We do anticipate a further reduction in the overall cane availability in Maharashtra and Karnataka and the current estimates are, next year the overall Maharashtra-Karnataka region could see a further drop of about 2 million tonnes. So, we would still be in the region of 29 odd million tonnes of sugar production. The Government has an option to, about 1.7 million tonnes of ethanol that got diverted, in the event the situation in Maharashtra and Karnataka looks especially bad, they can mandate a further reduction in the diversion of ethanol. So, we do not anticipate any sugar shortage. The cost of production has definitely gone up. We do expect post elections, the prices should tend to go up a little bit to reflect this increase in cost of production. But overall, now with this post reduction and diversion, there is no shortage, and we don't see the threat of any runaway price hike at this point. Currently, the prices have come down substantially from the peak of October. I believe Maharashtra is selling in the region of Rs. 34 to Rs. 34.50 per kg. Prices up north in the UP region are in the region of about Rs. 37.50 or Rs. 38 per kg. Rs. 37 plus or minus 50 paise would be my number for UP right now. Hopefully, the prices should stabilize around these levels with the potential for an upside post-election. That would be my call.

Moderator: The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Sir, I need your view on recovery for us because I think if you look at 10.8% recovery is still lower than historically what we used to do in these cases. So, how is the outlook for recovery improvement the way you are doing the cane development process? And what would be the expected cane crushing this sugar season?

Gautam Goel: Recovery for this quarter that we say the gross recovery is actually higher than our last 2 years' recovery at this quarter. If you see, the recovery in November-December is at its lowest. We are running about close to 0.41% higher as of 31st December. And we do see a continuous increase in our recovery as compared to the previous 2 years. If the current trend continues, we do expect our overall recovery to be in the region of to be higher by about 0.60% to 0.65%, which is also what we mentioned in our opening remarks. We expect this increase in recovery to more than offset this increase in cane price. This is actually a result of our cane development efforts and agro-climatic factors. We also are monitoring and benchmarking our recovery from our peers in our region. And I'm happy to note that our recovery is amongst the top sort of 5 percentile. We have a higher recovery as compared to our peers or amongst the top sort of levels in the industry around the region. Our expected cane crush is maybe about 4% to 5% higher than last year. This is what we were expecting prior to the start of the season. But with this increased diversion and lower ratoon yield, we still expect the number to be higher, but I would imagine maybe it might not be 7% to 8%, could be 4% to 5%.

Vikram Suryavanshi: So, gross recovery for a full year season basis could be higher than 11% or so?

Gautam Goel: It should definitely be higher than that. Last year, we were 11.03%, and the year before last, we were 11.3%-odd. This year as of 31st December, I would imagine the trends are positive and they are continuing to show us an increasing trend as compared to the previous 2 years. The delta is only increasing, not decreasing.

Vikram Suryavanshi: Secondly, the distilleries that we have are flexible to have multi feed and can we use surplus capacity for grain-based kind of a thing, or it will take some CAPEX?

Gautam Goel: As of now, our distilleries are not multi feedstock. We are continuing to study and evaluate converting some of our distillery capacity into a multi feedstock for next year. We are eligible for an interest subvention loan if we were to decide to go ahead with this. We are continuing to study it very actively and discussing it with the board and hopefully we should have some decision on it sooner than later.

Vikram Suryavanshi: But is it a time consuming and slightly bigger CAPEX or it can be managed within a season if we decide to go ahead?

Gautam Goel: We expect if we were to go ahead and decide to do this, we would want it to be commissioned prior to the start of next year. We don't expect too much of sugar diversion into ethanol next year. If the sugar balance sheet remains the way it is, we expect the numbers to be similar to this year's numbers. We have that option available to us. And we are also very cognizant of the fact that there has been a lot of policy volatility. There was a ban on rice export. The maize prices have gone up through the roof. It should show a positive value addition if we go down this path. We have been a bit cautious in this sector. If you recollect, that's the reason why we deferred our distillery in Meerganj. And I think that decision could pay off because one needs to be a little bit cautious rather than being a bit more aggressive. That would be our view.

Vikram Suryavanshi: And bagasse sale; because the way we are generating surplus power, and I guess we are also selling bagasse in the open market. Was there any bagasse sale in this quarter or on a full year basis? How much would be that broadly? If you can give us some idea about that.

Gautam Goel: We continue to sell bagasse. Last year, we sold a substantial quantity of bagasse, this year too. The prices have been softer in bagasse this year as compared to last year. Nalin, would you have the exact numbers of bagasse sales for this quarter?

Nalin Gupta: Bagasse 0.6 lakh tonnes we sold in this quarter versus 0.4 lakh tonnes last year in the same quarter. It has gone up by 50%.

Vikram Suryavanshi: And how much would be the average realization?

Nalin Gupta: Average realization is down by around 25% to 30%. Last year, it was around Rs. 3,250 per tonne, and this year, it is in the range of Rs. 2,200 per tonne.

Moderator: The next question is from the line of Manu Jindal from Thorin Technology. Please go ahead.

Manu Jindal: I have 3 questions. The very first question is, when you say country liquor, do we derive this country liquor from B-heavy or C-heavy molasses? That is my first question. And the associated question would be, what is the impact on the margins when we manufacture country liquor vis-a-vis when we would have manufactured, say ethanol with that molasses? This is the first question. The second question would be regarding sugar prices. You just now mentioned that you are expecting post elections to have some surge in sugar prices. Why is it that? Would it be more due to ethanol diversion, or would there be any supply shortage? And my third question is regarding the current capacity of 3,12,500 liters of biofuel when you say. Is it like that same capacity can be used to manufacture ethanol from B-heavy and syrup or is there a separate bifurcation to that number, 3,12,500 liters?

Gautam Goel: Mr. Manu, basically the country liquor that is your first question, what is the raw material, till last year and for this quarter, we were using B-heavy molasses which was produced last year to make country liquor. Going forward, we expect to use C-molasses to manufacture country liquor. On the margin impact, the margin on country liquor has substantially reduced. The ENA realization for country liquor for us is in the region of about Rs. 25 to Rs. 26 per liter whereas we could have sold this equivalent alcohol in the ethanol sector today at about Rs. 56.5 per liter. So, there is a substantial gap in the margin that we are realizing in ethanol versus country liquor. As we have mentioned multiple times, the country liquor business is purely because of the Government of UP's levy molasses policy. If we were not doing country liquor, then we would be forced to sell ENA at about Rs. 19 per liter or B-heavy molasses at about Rs. 1,400 or C-molasses at Rs. 1,100 per tonne which is leaving a substantial value addition for pure country liquor manufacturers. So, we have decided to venture into this business and I'm happy to note we have a sizable volume. We are in the top 10 country liquor sellers in the state. As I mentioned in my opening remarks or in the second question, we don't expect a big surge in sugar prices this year because of the change in policy where they prevented more diversion of sugar into ethanol, but we do expect the prices to go up from here to maybe a more reasonable level keeping in mind the increase in cost of production. And sort of could be a little drop in production next year. But I would not be inclined to suggest that there would be a surge in price. Prices could remain stable to maybe firm up a little bit post-election. For current capacity in Biofuels, you are right in presuming that the capacity we quoted is for B-heavy molasses. If we were to make C-molasses, this capacity would be down to 260,000 liters per day.

Manu Jindal: Just the last question. When the Government took out this decision to not divert any syrup towards ethanol manufacturing, I just wanted to understand that if all the capacity of 3,12,500 is dedicated towards B-heavy, then what impact did we witness by this regulation? Did we have any material impact from this?

Gautam Goel: One is the nature of distillation. When you make C-molasses, across the board, the capacity comes down by about 25% to 30%. The Government's decision was basis more on account of preventing sugar from being diverted and to conserve sugar for the country. When you divert B-heavy, you also have more raw material for the entire offseason. When you make B-heavy, roughly you make 5.5% to 6% B-heavy per tonne of cane versus 4% to 4.5% of C-molasses per tonne of cane. So, you get an additional quantity of B-heavy molasses which can make you run for a greater number of days from the same amount of cane. Now, all of us who are making C-molasses, we will certainly find we have idle distillery capacity which is what is and people who were fundamentally syrup-related businesses, their idle capacity will be substantially higher.

Moderator: The next question is from the line of Nitin Awasthi from InCred Equities. Please go ahead.

Nitin Awasthi: Sir, firstly basis your investor presentation, your inventory is valued at roughly Rs. 34.4 per kg of sugar. So, I'm expecting that this will get revised to somewhere around Rs. 36.5.

Nalin Gupta: Yes, that's correct; as of now valued at Rs. 34.4, then adding Rs. 2.1, so this will revise to Rs. 36.5.

Nitin Awasthi: Also, your sales you have done is roughly 3 crore kg of sugar. The cost of that production, basically gross profit shrinkage should happen by around 6 crores? Is that figure close to correct or not correct?

Nalin Gupta: Yes, we sold 3 lakh quintals, i.e., 3 crore kg of sugar at an average realization of Rs. 40.

Nitin Awasthi: That was the selling price. Now, you have obviously put a purchasing price to that and derived your gross profit whatever that price basis transfer pricing. I'm assuming that that price also goes up by Rs. 2. Your gross cost of the said sugar goes up by Rs. 6 crores. Is that correct?

Nalin Gupta: So, no. In this quarter, Nitin, we sold 1 lakh quintals (10,000 tonnes) of sugar which was produced last year; the current season, which is valued at Rs. 34.5, is just 20,000. So, impact would be around Rs. 4 crores to Rs. 4.25 crores.

Nitin Awasthi: Secondly, I wanted to understand, you are one of the largest country liquor players in Uttar Pradesh as of now and I understand the reason for being in country liquor is that there is a levy policy by the state Government which makes it more profitable to be in the country liquor business rather than not be in the country liquor business. However, you have substantially increased your capacity. Now, would all of this capacity actually be required for the levy purpose or a good portion of this capacity you can sell country liquor at market prices?

Gautam Goel: Nitin, we haven't really made any major CAPEX to increase the capacity. It's more a function of sales. And at this point of time, our first target is to try and achieve 100% of our levy obligation through our own country liquor sale. That is our first target. We are at about 70% to 75% of the target. It's only much later will we really have visibility to this. And the country liquor pricing mechanism basically there is a reverse calculation the Government does. They fix the MRP for the country liquor segment and they have done a backward calculation to fix the raw material price all the way down to molasses.

Whenever we fulfill our own levy obligation from the sugarcane, we will have the option to buy cheaper molasses or ENA from the other sugar manufacturers who do not have country liquor manufacturing capacity.

Moderator: The next question is from the line of Falguni Dutta from Mansarovar Financials. Please go ahead.

Falguni Dutta: Sir, just to understand this part a bit more – this Rs. 20 crores that you have provided. The difference between the Rs. 19 and Rs. 56 that you mentioned, is that the difference which comes to Rs. 20 crores? How has the accounting been done is what I wanted to know.

Gautam Goel: Falguni, there are 2 parts. Let me take the first part which was the legal part. Maybe the exact numbers, Nalin can explain to you. During our last quarter's con-call and our investor presentation, we highlighted what we believe there was a miscalculation in the way the UP Government had imposed levy on B-heavy molasses. The industry had gone to court, and we had got a stay from the court, and we were hopeful of the case being won. Therefore, we had not accounted for that additional levy which the Government calculation mandated us to give. We had made a noting in our results, and we had also accounted for these losses and we had also said the same during our investor call. In the event we lose this case, we will have to make this additional Rs. 20 crores adjustment. Post our last con-call, somewhere in October, the industry decided to withdraw that case and therefore this adjustment. Further detailing of this, Nalin can explain to you if required.

Nalin Gupta: Falguni, what we do is whatever molasses we produce, one is B-molasses, and one is molasses which is to be given in levy. The molasses which is to go towards levy will be valued at the levy rates. There is a market rate for C-heavy molasses which goes under levy and B-heavy molasses which goes under levy. So, we account for at the market rate for arriving at our cost of production.

Falguni Dutta: What I wanted to know was is this the differential between the cost and the rate at which you are having to sell, is this the loss that you are incurring because of the rate being lower than the cost. Is that what you mean to say?

Nalin Gupta: No, molasses and bagasse being the byproducts, their market value is reduced from the gross cost of production for arriving at the cost of production of sugar. This Rs. 20 crores was additional levy which we have accounted for directly in this quarter's P&L, but it does not affect our cost of production of this season.

Falguni Dutta: We will not have any more such losses in the coming years or coming quarters?

Nalin Gupta: We can hope so.

Gautam Goel: There is no carry forward loss. This specific loss, Falguni, we don't have any more losses or any carry-forward or potential back-end losses that we should need to provide in the current situation.

Falguni Dutta: Is this accounting done every year for that particular year or this was just a backlog and the other years, it is embedded in the number? Is it a number which is separately disclosed?

Gautam Goel: This particular number was separately disclosed last quarter. And it was basically because there was an amendment the UP Government came out with with regard to levy calculation which we as an industry had challenged. And there was a stay against that order. It was only specific to that particular period because they had come out with an amendment which we had challenged.

Falguni Dutta: Finally, the cost of sugar for us for this season, would it be about Rs. 36 to Rs. 36.50 per kg for the season ending September 2024?

Nalin Gupta: Falguni, the cost of production is majorly derived vide the sugar recovery which our Managing Director informed that it is going to be up than last year. Of course, the cost of production is going to be lower than last year. But for the December quarter, of course, it stands at Rs. 34.45 plus Rs. 2.10 which is on account of increase in SAP. For the March quarter, of course, it will depend upon the recovery which we are expecting to go up.

Falguni Dutta: So, you mean to say broadly directionally the cost would go down from Rs. 36.50 by the end of the season?

Gautam Goel: We are very confident of that, yes.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, the question was, for this sugar segment, if you could explain the reason if we compare the last year numbers with the current year, what factors attributed to the lower profitability for the sugar segment, particularly the sales part also and hence the profitability?

Gautam Goel: If you recollect on the sales, it is basically and fundamentally a factor of sale which you see our sales have been down in the sugar segment by about close to 40%, if I am not mistaken. The total sale on rupee-to-rupee terms in the sugar segment had been down by 58%. And that's because last year, we had additional quotas plus the Government of India had allowed sugar exports and we were exporting our own sugar. This year, the quotas have been severely curtailed and therefore we are carrying this sugar in our inventory.

Saket Kapoor: Sir, how will this translate going ahead, say for Q4, when this inventory gets diluted…. What we heard from you in the second quarter, we were looking for a better quarter number for this Q3; however, that did not work out, I think so, as per the changes in the ethanol plan and all. So, what is the outlook?

Gautam Goel: This will be dependent upon the quotas which the Government releases. I'm sure you are aware that we are mandated by the amount of sugar quotas that the Government tells us to sell. We do not have the flexibility to sell beyond the quota sugar. And the numbers will be a reflection of the quota that we get. We expect the quotas to be in line with the last year, maybe marginally higher, but they will definitely be lower than last year because we have no exports. Last year, we had done close to 76,000 tonnes of sugar exports in Q3-Q4, which will be absent this year.

Saket Kapoor: Sir, as you mentioned very correctly that we deferred our greenfield distillery project for good reasons as we see today that there is a flip-flop on the policy side and which I think will be very likely going ahead also in terms of the agricultural crop nature and the vagaries of nature. So, going ahead, what would be our plan going ahead for this biofuel segment as from the other feedstocks, I think so the gap which will not be serviced from sugarcane would be from the other agri commodities. So, what would be the thought process of the management in terms of the contribution from the biofuel segment and what kind of CAPEX can we envisage going ahead?

Gautam Goel: I will refrain from giving the absolute CAPEX number because we are working these out, we are in discussion with our board. We do believe there is merit in having a dual feed distillery, at least part of our distillery to be a dual feed distillery, because we believe we will be in a more competitive state producer as compared to standalone grain distilleries. We are in the rural sector; we have the ability to source raw material and the power fuel costs because of bagasse as compared to coal prices will be lower than theirs. This is under active consideration. We are discussing this; we are budgeting it out and looking at the raw material availability, projecting everything, and I think we will be taking a call on it sooner rather than later. But on the new greenfield distillery, we are still on a wait-and-watch mode.

Saket Kapoor: Sir, for the existing one, do we have dual feedstock there also?

Gautam Goel: We don't have dual feed as of now. We are contemplating converting some of it into dual feed in the near future, but that is still under discussion; nothing has been firmed up.

Saket Kapoor: Those activities, i.e., you are telling about the retrofitting part of going ahead.

Gautam Goel: Retrofitting part of the existing distillery, yes.

Saket Kapoor: Sir, for investors, what should we look forward to from Dhampur Bio Organics going ahead? As of now, the policy changes and the other factors, the numbers are not aligned to what anticipated earlier. What should we anticipate in terms of exit for the year and going ahead, what steps exactly the management is taking to improve firstly the profitability? And my other point was on the bio-based sugar, I think the pharma grade sugar part, how is that jelling up and what kind of revenue have we done for this quarter & 9 months, and going ahead, what should be the outlook?

Gautam Goel: There are 2 parts to this. If you recollect, in the last 2 years since the time Dhampur Bio Organics came into existence, we have steadily increased our overall cane crush. Over the last 2 years, we have had a steady increase in our cane crush, and we expect a further increase in our cane crush this year. As I also mentioned and as you see, our recovery which has the single biggest materialistic impact on our cost of production and P&L, we are seeing a substantial jump on our recovery and we hope that the losses we had or the potential loss of profit we had because of disease and pest infestation, we do believe we have curtailed that considerably. And we believe going forward, our recovery numbers should continue to be amongst the better players in the industry, which will have a long-term impact for us as a Company.

With regard to the quarter-on-quarter result, which is more dependent upon the Government's sales quota and things like that, that will be a manifestation or will be a reflection of what is happening in the entire industry per se. The other thing which you could look at it from DBO's perspective is some of the strategic calls that we did take when we decided the opportune time to be a bit cautious and not spend money on putting up a new greenfield distillery. There were a lot of questions at that point of time why we were deferring the distillery, but we did. We also made arrangements to make C-heavy molasses ahead, maybe a little bit faster or ahead of the curve as compared to our colleagues. I guess these are the kind of things that you can hope to achieve from us. Pharma sugar, as you mentioned, we have invested some quantities there to improve our sugar realization. We are continuing to see an uptick in our sales and uptick in our average realization. And you would be able to see that in a higher average realization as compared to our peers. Going forward, if our recovery continues to improve and should the realization improve, the delta should play out – if not this quarter, in the coming quarters.

Saket Kapoor: Sir, what would have been the contribution from the pharma grade sugar part for these 9 months?

Gautam Goel: This is basically, as Nalin mentioned, we just about sold 20,000 tonnes of new crop sugar this year. And bulk of the pharma or institutional buying is a little subdued in the months of September-October. So, we will not be in a position to give you the exact contribution of the pharma category right now. But it's an increasing trend and it is giving us a positive outlook. For 9 months, in the first 6 months last year, there was a certain export carryover. We didn't sell to some institutions. We did have some other pharma category sales. Last year was the first year we were there. We hope to have a higher volume and realization as compared to last year by about 40% to 50% going forward, pharma to pharma.

Saket Kapoor: Sir, if we take the current scenario, the Government's role in making sugar available in the country at reasonable prices and they were stopping the diversion for ethanol, do you think that the advantage which the sugar players were earlier having as value-added product from ethanol, that gets dented and there is going to be, at least for the time being, a lull in the profitability, as you mentioned that sugar sales would be on a quota basis? Ethanol, we are having curbs because of these reasons, and molasses the export also, there is export duty of 50%. Putting all these things into the perspective, these are the reasons that would not allow the profitability to improve going ahead? Or correct me there, sir. What steps are we taking to improve given these circumstances?

Gautam Goel: I think this year is a little bit of an aberration for various reasons – climate playing out, elections coming in – but to be fair, the Government is also being proactive, and they recognize both the importance of the ethanol program, and it is just, I think, a temporary blip. They also realize that the sugar industry is a very important agro-based industry which is very efficient, and the pass-through to the farmer in a circular economy, the sugar industry is probably one of the most efficient industries in that manner. Things that are within our control, which is the cost of production, recovery, efficiencies, quality of products, selling, I think if we focus on them, barring one or two minor blips here or there, I would be more inclined to expect reasonable approach from the Government because that is what they have done in the last 8 years. It will be unfair on my part to say that the Government has been unreasonable. The ethanol policy has been a reasonable policy. I am quite hopeful that there will be some course corrections; maybe if not now, post elections.

Saket Kapoor: Earlier, sugarcane molasses had been the feedstock. Now, they have been more skewed towards, I think, the grain. Earlier also, grain was a major, but now the thrust is majorly on the grain part, at least for this season. That is what we are observing in terms of practice.

Gautam Goel: I think you have to keep in mind that if we have to have a successful ethanol blending program of 20% to 25% which is the overall direction which we are taking, no single feedstock will be able to fulfill the demand. So, it's not really a matter of this versus that. It's clearly a matter of every feedstock will have a place in this whole ethanol blending program and the program I think is here to stay. I don't see any movement away from the program.

Moderator: Participants, due to prior commitments, the management needs to wind up shortly. We have enough time for only 2 questions. For all follow-up and unanswered questions, you are requested to forward your questions to Mr. Navin Agrawal from SKP Securities.

The next question is from the line of Pavan Sharma, an individual investor. Please go ahead.

Pavan Sharma: Sir, my first question is regarding, as you told that the Government is inclined for the biofuel, no?

Gautam Goel: Yes.

Pavan Sharma: But why they stopped the biofuel program? We have stopped our CAPEX expansion. If you are thinking that the Government is inclined to go for ethanol and this is the temporary glitch, we should move on to the ethanol blending program.

Gautam Goel: Pavanji, it was not clear. You are saying why we have stopped; we believe that the Government is definitely committed to forwarding the ethanol blending program. As far as we are concerned, for ourselves, we already have a sizable capacity. Now, as per the Government mandate, we can't divert more B-heavy into ethanol. Therefore, it's purely the mandated requirement for this particular year which have caused these sort of aberrations. Long term, again, these are big CAPEX decisions. As a Company, we need to be a little bit more cautious keeping seasonality in mind. That would be our view, as a Company. We don't want to stress our balance sheet. We want to maintain a strong and healthy balance sheet.

Moderator: The next question is from the line of Hari Kumar S, an individual investor. Please go ahead.

Hari Kumar S: My only question is on the plan on branded sales.

Gautam Goel: Is that branded sugar you are talking about, I would imagine?

Hari Kumar S: Yes, sir.

Gautam Goel: I think we were one of the first people to launch the brand Dhampure that was launched many many years ago. We are looking at institutional play, branded play, third-party packaging to see where our value addition and long-term strategy comes into play. At this point of time to invest very heavily in putting up a big brand play for sugar, that is not making sense. We have to have a bigger vision to have multiple food products FMCG thing which probably is still a little bit…. We are maybe a little distance away; could be happening in the future, not right now.

Moderator: Ladies and gentlemen, this would be the last question for the evening. I request you to forward your questions to SKP Securities. I would now like to hand the conference over to Mr. Goel for closing comments.

Gautam Goel: I thank you all very much and I thank you for taking time out to attend our con-call. Any questions which we could not answer, please share them with us and we will get back to you immediately.

Moderator: On behalf of SKP Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.