"E.I.D.-Parry (India) Ltd. Q2 FY25 Earnings Conference Call"

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MODERATOR:	**MR. HARSH SHETH - DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to E.I.D. Parry Q2 FY25 Earnings Conference Call hosted by DAM Capital Advisors Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harsh Sheth. Thank you and over to you, sir.

Harsh Sheth: Thanks, Palak. Good afternoon, everyone, and warm welcome on behalf of DAM Capital to the Q2 FY25 earnings call of EID Parry India Limited.

We thank EID Parry's Management for giving us the opportunity to host this call. On the call today, we have with us Mr. Muthiah Murugappan – Whole-Time Director & CEO; Mr. Suresh Kannan – Whole-Time Director, Parry Sugars Refinery India Private Limited; Mr. Y. Venkateshwarlu – Chief Financial Officer and Mr. Biswa Mohan Rath – Company Secretary.

I will now hand over the call to the Management Team for "Initial Remarks" post which we'll open the floor for Q&A. Thank you and over to you, sir.

Muthiah Murugappan: Thank you, Harsh, and good afternoon to everyone. It's nice to connect again. I hope you also all had an opportunity to view our Investor Presentation, which we put up online just after the conclusion of our Board meeting and the publishing of our results. I will start with a brief overview of the global sugar scenario. The global sugar balance for sugar year 2023-24 ended with a surplus of about 4 million tons. 2024-25 is forecasted to end more balanced in terms of supply and demand, but now projected at just over 3 million tons due to continued higher production forecasts in India, EU as well as Thailand. Brazil has witnessed downward revisions in sugar output from 41.1 million tons to 39.6 million tons from mid Q2 due to instances of dryness, low sugar mix, and fire incidence. It will have an impact on cane quality and production prospects in sugar year 2025-26 crop as well.

The lower Brazilian output this season is causing short-term tightness in raw sugar availability, and there is price volatility. Production estimates for India is about 33 million tons gross and Thailand is still evolving with good monsoon expected to positively impact the output prospects. Refined sugar is oversupplied due to the EU, Ukraine, and Pakistan higher exports and exchange delivery. Hence, the demand is muted and expected to recover post December 24. White premiums have also significantly dropped to $75 to $80 per metric ton, as against $110 to $130 dollars metric ton in September 24.

A little bit about the Indian scenario. Gross production forecasted by ISMA for the upcoming season is about 33 million tons. As against, sugar year 2023-2024 production of about 34 million tons. After accounting for the expected sugar diversion to ethanol of about 4 million tons, the net production is expected to be 29 million tons. Whereas UP is expected to remain stable this year, slight drops are expected in Maharashtra and Karnataka, and also in TN. India's sugar inventory is at about 8.5 million tons at the start of the sugar year, and hence combined with the post-net diversion production of 29 million tons, the total supply is expected to be 37.5 million tons, which will be more than adequate to meet domestic forecasted consumption of 29 million tons. The estimated closing inventory at the end of sugar year 2024-25 will be about 8.5 million tons. And this will be quite ample for policy makers to have some leeway to relook at some of the policy decisions. Ethanol blending has been at about 15% in ethanol sugar year 2023-24 and bids received for ethanol sugar year 2024-2025 are at about 18% blending. The target for ethanol sugar year 2025-26 is about 20% of blending. So I think we're on the path to getting there.

Starting November 1, the government has lifted all restrictions of sugar diversion for ethanol production, post the brief policy hiatus last year. We remain hopeful that there will be announcements around MSPs, and the ethanol offtake prices, and perhaps exports, given a healthy closing stock this year, as well as next year. And also, FRP increases this year of about 8% and the prior year of about 3%.

At EID Parry, it has been a challenging quarter. We've been challenged on recoveries in Tamil Nadu. This was an account of poor monsoon last year, which had a crop impact this year as well. On account of the substantially lower recoveries that we faced, there was also increases on molasses price and this also impacted the business. While we had good volumes on our distillery business, the margins have been diluted for the same reasons. The consumer product group made good progress with the scale up of the safe to launch, expansion of distribution at large, and launch of new products. The refinery has also had a fair quarter, but as commented earlier, white premiums are, we are starting to see the pressure in the subsequent quarters. And we'll talk more about that in this call.

I now hand over to my colleague Mr. Y. Venkateshwarlu, our CFO, to take you through the financial parameters.

Y. Venkateshwarlu: Thank you, Muthu, and good afternoon to all participants. It's a great pleasure to be part of the earnings call and to share the key information of the operations and the financial performance of the company. I would like to share with you the key operating parameters of this segment. So, sugar operations. The crushing operations in Tamil Nadu at Nellikuppam, we operated for 81 days and at Pugalur for 67 days. Overall Tamil Nadu, we crushed about 71 days. So I would like to share the quantitative details as under. We crushed about 5.61 lakh metric tons against the 8.54 lakh metric tons of the corresponding quarter of the previous year. As far as the recovery is concerned, the current quarter is 7.6% against the 8.22% of the corresponding quarter of the previous year. We produced about 42,000 metric tons during the current quarter as against 70,000 metric tons of the corresponding quarter of the previous year. So as far as the cane landed cost is concerned, it's Rs. 3,301 per metric ton, as against 3,155 metric ton of the corresponding previous year.

As far as the sugar volumes is concerned, we sold about 94,000 MT including in the CPG segment. And the previous year, the same period, it was 1.27 LMT. This reduction largely has come due to the reduction in release quota. As far as the selling price is concerned, slightly we have increased. We have closed at a Rs. 39.39 per kg as against Rs. 37.57 of the corresponding previous quarter. So we carried about 1.19 lakh metric tons of sugar, which is carrying about Rs. 36.50.

So revenue from sugar, biofuel, revenue in quarter two was Rs. 216 crores, excluding intersegment transfer in current quarter, again the corresponding previous year was Rs. 361 crores, registering a decline of 40% on account of the lower release quota. All FRPs were paid as per the timelines. As far as the CPG, consumer product group is concerned, the consumer product group has achieved a turnover of Rs. 236 crores, including the turnover of Rs. 82 crores from the branded staples during the quarter as against the Rs. 134 crores for the corresponding period of the previous year, registering a growth of 76%.

As far as Cogen operations is concerned, we generated about 505 lakhs units as against 730 lakhs units in the corresponding period of the previous year. We have exported about 233 lakhs units as against 374 lakhs units in the corresponding period of the previous year. Power tariffs are slightly over than the corresponding previous year quarter. The current quarter we are at 3.94 per unit against the 4.59 per unit in the corresponding period of the previous year. As far as the revenue is concerned, current quarter we are at Rs. 15 crores as against Rs. 32 crores in the corresponding period of the previous year.

As far as the Distillery is concerned, we have a very strong performance in the current quarter. We sold about 419 lakh liters against previous year of 304 lakh liters, where ENA we sold about 159 lakh liters and ethanol around 260 lakh liters. So, average price realization in quarter two, is Rs. 64.20 as against previous year realization of Rs. 60.61. As far as the revenue is concerned, for the current quarter it's Rs. 281 crores against Rs. 190 crores during the corresponding period of the previous year.

As far as the Nutraceutical segment is concerned, Nutra turnover from the Indian operations was about Rs. 7 crores for the quarter against the Rs. 9 crores in the previous year. At the consolidated level, the Nutra business turnover is Rs. 37 crores against the corresponding previous period which was about Rs. 58 crores.

As far as the PSRIPL refinery operations is concerned, operational revenue for the current quarter is Rs. 1,116 crores, as against the previous quarter for the same period of Rs. 1,296 crores.

PBT for the current quarter is about Rs. 5 crores, Q2 of the same previous year was Rs. 14 crores. So the refined sugar production for the current quarter is 2.65 lakh metric tons against the previous quarter of 2.44 lakh metric tons.

As far as the short term loan is concerned, we stood at Rs. 278 crores against the previous quarter of the Rs. 34 crores.

As far as EBITDA is concerned, for the current quarter, we are at Rs. 29 crores, as against the previous quarter of Rs. 47 crores.

Now the floor is open for the questions.

Moderator: Thank you. We will now begin the question-and-answer session. First question is from the line of Gautam from Nalanda Securities. Please go ahead.

Gautam: Can you just give more insight on the refinery operations for the second half because you said the white premiums are going to decrease? So are we going to still make a profit?

Suresh Kannan: This is Suresh here. As far as the second half of the year is concerned, of course, the spot white premiums have come off since the last couple of months. We have a forward book which is having a hedge against this. And of course, the white premiums are unlikely to stay at the current levels because at these levels no refinery can operate covering even its variable cost of production. So we are expecting the white premiums to recover, and the recovery will coincide with the improved demand that will come up from the month of December, as was explained in the opening remarks as well. So with that, we will not be in a position to repeat the levels of white premium that are there in H1, but we are hopeful that recovery in white premium will be able to make ends meet for the second half.

Gautam: And what percentage are we hedged for the second half or for Q3?

Suresh Kannan: Fairly hedged for the second half.

Gautam: And just one classification, so on the sugar division in the trade segment, what would be the volume that we would have sold for the quarter?

Y. Venketeshwarlu: Looking at the release quota is drastically reduced. We have done a balancing between the industry and the retail. So trade will not give much realization. We are more concentrated on the institution sales and the retail sales.

Moderator: Thank you. The next question is from the line of Gautam from Nirzar. Please go ahead.

Gautam: Could you talk a little bit about the sales growth that we are looking at in Staples and in Sweetener? I think the retail Sweetener sales growth has reduced a little. If we can talk about that? And what geographic expansion plans are we planning in these two areas?

Balaji Prakash: I think first I will take your question on geographical expansion. On geographical expansion, we are looking at being present in the south here for the staples business. And for the sweetener, also it is largely south. There is a little bit of presence that we have in Mumbai and east on modern trade, but otherwise it's largely in the south. With regard to sweetener sales dropping down, one reason is that as the CFO said, the release quota itself had come down in absolute numbers. Within the release quota, we prioritized retail and institution, but the absolute number of release quota itself was very less and so we had to manage with a little bit of growth on the sweetener business. On the non-sweetener business, we are at about, as shown in the slide, we are at about Rs. 29 crores approximately per month is the sale value. And we are expecting to grow on this as per the business plan in the next second half.

Gautam: We were also looking at getting into tolling arrangement with other factories, for the sweetener side of the business. So can we not manage our constraint of production by that?

Balaji Prakash: I think there is there are some discussions and thought process happening around that in terms of how are we going to manage the future growth opportunities on account of the release quota. I think as and when it gets finalized, we will let you know.

Gautam: Can we also talk a little bit about the advertising and promotion expenditure for this consumer product business? How is it currently and what we are looking at? And share of modern trade and e-commerce players and quick delivery players in our total mix?

Balaji Prakash: So the share of e-commerce, quick commerce and modern trade put together will be about 25% to 30% of the total business. A&SP as a percentage to total sale as of now stays at around between 10% to 12% and it is expected to be at that level for some more time.

Gautam: And within our staples, which category of products is growing better?

Balaji Prakash: Both are growing equally. Rice and dal are both contributing. Saliency is about 52% and 48% to the total sale. So both are growing equally.

Moderator: Thank you. The next question is from the line of Gautam. Please go ahead.

Gautam: Could we also talk about the outlook for the sugar business, given that yields have also come down a little. So how do we see progress after the monsoons, maybe outlook for the other seasons?

Ashiq: Overall, between the geographies we are operating, TN will be challenge for some time to come because that's structurally because of the way the state is. We see very robust outputs coming from Karnataka. So I think that will balance the TN challenges a bit. But we will see that resolving over a period of about six months to one year as the new crops come in. Last year if you need to know, we have had challenges in terms of a late monsoon and also a lot of pest related issues in TN. The pest related issues are beyond us and currently whatever we are seeing in terms of monsoons, it's been good. We are catching up on monsoons in TN. So both augur well for the way forward. But the recovery challenges might be there for some time because that's related to soil fertility etc. across organizations that are working on that. We should see some benefits for a couple of years on the recovery.

Gautam: And any update on the ethanol side and pharma ethanol, what kind of realization and production are we looking there in the normal ethanol and pharma ethanol business?

Y. Venketeshwarlu: Gautam, as far as the pharma ethanol market is concerned, it is a very limited market. We have clarified in the last call also because we have specified customers and we dedicated one particular plant, whatever the volume which comes from the pharma, we will cater from that. So it is not like a big ethanol growing business kind of thing.

Moderator: Thank you, sir. The next question is from the line of Manoj Jethwa from KSA Securities. Please go ahead.

Manoj Jethwa: My first question is pertaining to the staple business of EID Parry. Currently, we are there into rice and dal only. Are we going to take this business in the other varieties of staples and apart from the south market are you going to go pan India also and maybe say globally?

Balaji Prakash: I think we are looking at consolidating ourselves largely in the south of India. And with regard to the product portfolio, there will be a constant up gradation and addition on products. As and when we see an opportunity in the market and we think there is a fitment with the brand, we will be launching those products and increasing our portfolio. So we will have the dal, rice and millet and other dals we are evaluating them and we are looking at where there is opportunity we will definitely be operating in that.

Manoj Jethwa: Continuing with the staple business also, Government of India is also promoting the millets business especially in US, Europe and other markets, and do you see the good opportunity for the export purpose also, rather than restricting ourselves to Indian markets only?

Balaji Prakash: There is a good opportunity definitely. So we are building the domestic business, we are building our supply chain, and once the supply chain is built, robust enough, we will be looking at export opportunities.

Manoj Jethwa: My third question is, a couple of our businesses are, there are a lot many challenges, we are facing in the co-gen business, distillery business and all that. Do you see a turnaround in those businesses over a period of time, maybe say 1 or 2 years down the line?

Ashiq: The distillery business is a robust business which is why we are focused around that. We see substantial margins in the business by operating efficiently and also given the support of the government for the ethanol blending program. Obviously, you will be hearing the news that there is a lot that the government is doing in terms of policy and all. We have a positive outlook on the kind of focus the government is having on this sector. I think that the kind of capacity we have established, we are positioned well to leverage and benefit from this focus. Ethanol blending targets the Indian government would keep taking up and they seem to be fairly focused on this program. So, we see distillery operations as an opportunity to strengthen our business foundations. In terms of co-gen, yes it's a challenge but it's also state specific. We have green shoots in Karnataka where there is some amount of support from the government. But I think overall the way the industries would start looking at this is to keep costs low and leverage the benefits of both sugar, premiumization of sugar and leverage the ethanol blending program to get a good margin in the distillery business.

Manoj Jethwa: My last question would be to the management. So what would be the honest **endeavors** on the part of the management where one could see if we could focus those areas which could really help in improving the margins in terms of EBITDA and PAT level at the console and the standalone business level? What are the areas which one has to focus on it? So it could be a win-win situation for the investor community as a whole sir.

Muthiah Murugappan: Manoj, thanks for the question. I think we're just coming off a CAPEX phase. Last 4 - 4.5 years where we've added substantial distillation capacity because of the ethanol blending program. Now about a year ago, we were well poised to move towards a 20% EBITDA margin given the way the program was structured. Obviously, that is a challenge now. It's a challenge because of climate. It's also a challenge because of policy. So we're nowhere near those, in fact, I think we'd be a single digit EBITDA margin. So I think we're really hopeful, I think we're seeing better signs on climate and we're also hopeful that there will be a more robust and more sustainable policy framework which comes in and this would help us keep back up towards that 20% EBITDA margin on the distillery segment. So this is an element around policy and an element around climate. Both of which are largely not controllable by industry. Of course, we would, at least from a policy perspective, have a voice in our viewpoint. Beyond that, I think beyond the CAPEX phase and the capacity that we've created, I think we're quite comfortable that we have balanced our milling as well as our distillation lines and you can actually see that in our capacity utilization. I think going forward, the next three years phase will really be about ruthless focus on execution and implementation and driving efficiencies around the entire manufacturing process of sugarcane milling and distillation. And I think in this sort of process optimization, cost control and driving better throughputs, we would be able to see more marginalization, but of course it has to be supported by practical and robust policy framework, and we need to be lucky around climate. And I think we, where there is amalgamation of three states, we will always see different yields, different recoveries across three states, Karnataka being the best. Now, on an amalgamated basis, if some of these things sort of fall in place, then we will ideally move into EBITDA per tons of about 650 odd, which I feel for a company like us will be a good level to get to as a good metric of profitability. Now, that is a core focus area This is also the cash generator, which will help us to fund our growth business. And our growth business, of course, is the consumer product group business. There, I think, we are in invest mode. As you can see, the business is expanding, and the focus is really around building distribution, which is very sort of the first platform and canvas that we need to build over the next couple of years to get to a certain critical mass. We will obviously continue to overlay with new products and build our brand equity in this segment. But I think once we reach that critical mass, you know, we'll start to see a profitable flywheel of a business model being developed. That said, with this business, while we are in invest mode, you will not see very heavy cash burn. I think you will see a very prudent approach. We will burn cash, but it will be quite measured and prudent so that we don't burn a big hole. We realize that there are constraints around the core business, and we continue to build and strengthen that platform, which will then enable further growth and break out. So I think these would really be the two priorities. I hope that sort of kind of answers your question.

Manoj Jethwa: Yes. And there's a small suggestion, which if you would allow me, I would like to give to the EID Parry management, sir?

Muthiah Murugappan: Sure.

Manoj Jethwa: Sir, in the EID Parry, one may operate on the different businesses as a separate CEO, CFOs, marketing organization, if that would be a good lean and meaner organization for EID as a whole, which could catapult it as a linear and meaner organization over a period of time?

Suresh Kannan: I didn't quite get the question. Maybe you want to repeat it?

Manoj Jethwa: Maybe I may take the question separately, sir. Privately, I may take it, sir. Thank you. That's all from me.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

Muthiah Murugappan: Thank you and look forward to connecting with all of you at the next quarter. Thank you.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.