"The Sukhjit Starch & Chemicals Limited Q4 FY '23 Earnings Conference Call"

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MODERATOR: MS. PAYAL DAVE–ORIENT CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the Sukhjit Starch and Chemicals Limited Q4 and FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aman Setia. Thank you and over to you Mr. Setia.

Aman Setia: Thank you. Good morning. ladies and gentlemen. I Aman Setia, Vice President Finance and Company Secretary of the Sukhjit Starch, would like to extend a cordial welcome on behalf of the Sukhjit Group for joining us on our con call on FY23 results. Dear friends, most of you, being all long-term shareholders, understand that hard work, trust and credibility have remained the three most important things in Sukhjit. We, while appreciating your time and patience for remaining invested with us for long, promise all our current and potential investors that we are a company which is not only committed to the operational and financial performance but also on the transparency and best practices front.

Regarding performance in FY23, I hope everyone had an opportunity to go through the financial results and investor presentation which has been uploaded on the Stock Exchange and our website. However, I would like to reproduce some key figures. Friends, you will be pleased to note that our net sales for FY23 have increased by 24% to INR1,435 crores vis-à-vis INR1,157 crores in FY22. EBITDA for FY23 is INR145 crores vis-à-vis INR151 crores in FY22. The profit before tax stood at INR93 crores against INR107 crores in the corresponding previous year and profit after tax stood at INR70 crores against INR77 crores in the previous financial year. The Q4 FY23 sales stood at INR391 crores with EBITDA at INR36 crores and PAT at INR16 crores.

Though we have clocked a healthy growth in the revenue from operations during the year, the margins remained under pressure across the industry due to high raw material prices and high energy costs, mainly owing to the geopolitical situation. On financial front, our long-term debt has reduced to about INR100 crores with a very low net debt equity ratio at 0.18. Dear friends, I wish to reiterate that effective use of capital on behalf of the shareholders is our primary objective.

To support our growth strategy, we believe in maintaining an efficient but prudent capital structure while retaining the flexibility to invest in growing the business. Today, from the management side, we have Mr. Bhavdeep Sardana, Senior VP and CEO, and Mr. Dhiraj Sardana, Senior VP and CEO of the company. Now I hand over to Mr. Dhiraj Sardana to give a brief about the company and its operations. Mr. Dhiraj Sardana please.

Dhiraj Sardana: Good morning, everyone. I hope I am audible. Firstly, I would like to give a small introduction about our company. We are an agro-processing company that specializes in production of starch and its derivatives, with a rich history as one of India's oldest starch producers and amongst the largest in terms of production. Our operations started in 1943, where we set up a corn-wheat milling facility in Punjab. Since then we have been expanding and currently we operate at four locations within India.

We initially started with 1,800 tons per annum of corn grind capacity, which at present is around 600,000 tons per annum, spread across four manufacturing locations in different states of the country. Our product range includes native starches, modified starches, dextrines, liquid glucose, high maltose syrup, maltodextrins, monohydrate dextrose, sorbitol, dextrose anhydrous, etc., as well as various by-products which cater to a wide range of industries. These compounds serve as a purpose in manufacturing a variety of products like candies, toothpastes, protein powders, flavoring agents, medicines, cosmetics and many more.

Our business model has always been to serve key customers and key markets in areas near to our plant locations. At the core of our philosophy is the aspiration to sustain growth across all our existing locations while actively exploring new avenues for expansion. By adhering to this principle, we continuously strive to enhance our overall business and create value for our stakeholders. Each of our facilities has been strategically placed to effectively serve clients within a radius of 700 to 1,000 kilometers.

The efficient operation and resource management of our four plants have resulted in all facilities operating at approximately 80% capacity. This achievement highlights our commitment to operational excellence and prudent resource allocation. Now, I would like to ask Mr. Bhavdeep Sardana to explain more about the future prospects of the company. Thank you.

Bhavdeep Sardana: Good morning, everyone. Expanding our presence across different geographies has been a key objective for our company. By doing so, we aim to strengthen our market share and gain a competitive advantage. Our dual approach of catering to existing customers while targeting new ones has allowed us to expand our market reach and broaden the customer base and solidifying our position in the market. To address evolving customer demands, we have focused on optimizing our product mix with a particular emphasis on high value offerings.

By aligning our product portfolio with the needs of our customers, we have successfully adapted to changing market dynamics enabling us to stay ahead of the competition. To fuel our growth trajectory, we have allocated capital expenditure to enhance the capacity of our existing plants. This strategic investment will increase our daily production capacity installed from 1,600 tons to 2,000 tons over the next 24 months. Importantly, we are proud to state that these investments are entirely funded through internal accruals underscoring our financial strength and sustainability of our company.

I apologize for the bad connectivity, some technical issue. I will recap the last few lines I was reading. In line with our commitment to efficiency and volume enhancement, we have prioritized higher capacity utilization. We are aiming to strive for optimal performance and to maximize operational efficiency and productivity. As mentioned before, we face some margin pressures due to higher raw material and energy cost resulting from the geopolitical conflicts. We were able to partially offset these impacts by passing on the cost to the market.

Looking ahead, we maintain a positive outlook for our company's prospects and remain committed to delivering value to our shareholders. By prioritizing the key areas discussed, we are confident in our ability to drive sustainable growth and generate long-term shareholder value. Our legacy of the past five decades provides a solid foundation for our future success. We extend our gratitude to our employees, customers, shareholders for their continued support. Together, we will navigate these opportunities and challenges that lie ahead and realize our vision for the future. Thank you and I handover to Mr. Aman Setia to formally thank you all for attending the forum.

Aman Setia: May I request the moderator to restart the question-and-answer session.

Moderator: Thank you very much. Our first question is from the line of Senthil Manikandan from ithought PMS. Please go ahead.

Senthil Manikandan: Hi, sir. Good morning. Thanks for the opportunity.

Moderator: Mr. Senthil, we request you to use your handset for optimum audio quality. Thank you.

Senthil Manikandan: Okay. So, hi, sir. Good morning. Thanks for the opportunity. My first question is on the industry. So, you can just briefly explain about the starch industry in India. What is the total capacity installed and what is the growth expectation for the industry going forward?

Bhavdeep Sardana: Mr. Senthil, the starch industry is a very unique industry. There are some listed players whose capacities could be in the public domain. There would be a lot of unlisted players whose capacities are not known. So it is not fair for me to give you an accurate number. It will not be correct. But if I were to hazard a guess, I would say that at Sukhjit, we are at approximately between 9% to 11% of market share depending on many estimates. And these are estimates. These are not real data. So you can guess the overall size.

As far as the future outlook of our industry is concerned, starch consumption per capita in India is one-tenth of that of US and one-fifth of that of China. And when I talk about starch, I mean I talk about starch and its derivatives getting into all kinds of products as mentioned on our investor presentation in our website. And typically, our industry beats the GDP growth every time in terms of growth. I hope that answers your question and sets the context.

Senthil Manikandan: Yes, sir. So, second question is on the thing you mentioned, you are going to expand your capacity by around 400 tons per day. So it will be across the plant or it will be the particular plant? Is it brownfield or greenfield expansion?

Bhavdeep Sardana: These are existing plants that are being expanded. Every plant, some kind of some capex is being apportioned to every plant. I am not at liberty to tell you what quantum is going in which plant, but we are expanding across all our locations, either in product or in overall grind.

Senthil Manikandan: Okay, so what will be the capex for the FY24 and FY 25? Any guidance?

Bhavdeep Sardana: We are targeting around INR40 crores for this financial year.

Senthil Manikandan: And just last question on the margin. So you mentioned that you partially passed down the higher environmental cost. So how do you see the main scope in the upcoming season and how the margins are going to pan out?

Bhavdeep Sardana: See, if I were to talk about the past and where we are at today, maize pricing has been optimized. It has, because of the new crop arrival, the pricing of maize crop has fallen in the last three months. With the government's increase of MSP, I feel that the Kharif crop may be higher. And looking forward, I see maize being pretty stable. I don't see maize going very high unless the monsoon does not support. So a bit early to say how I see maize in H2.

We need to see the advent of the monsoon and we can get a better idea in terms of availability and area under acreage when the Kharif plantation starts. So a bit early on that as far as margins are concerned, the margins have been range bound. And if the geopolitical conflict eases, the energy cost may come down. And like I said, a bit early to predict what the maize price is going to be immediately as on date. We will need to wait and watch.

Senthil Manikandan: Okay, sir. Thanks for the clarification. Thank you.

Moderator: Thank you. Our next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Yes, thanks for the opportunity. Sir, my question is again back to the industry. I believe India produces about 35 million tons. Sir, could you give us some idea? And I think 10% is exported. So could you give us some idea what is out of 35 million tons, how much comes for processing and how much is directed?

Bhavdeep Sardana: Sir, first of all, even the overall figure is doubtful. So there are people who are saying that the Indian total output, crop output is not more than 30 million tons. Some say 35 million tons. So exact data is not there. But as a thumb rule, I would say the poultry and the feed industry consumes roughly between 60% to 70%. You know, again, because of the nature of the industry, there are only few composite and large pan-India players, you know, from Venkateshwar to Godrej Agrovet, etc. But there are so many smaller players as well. So, but by and large, I would say, 60% to 70% and this is a big range I'm saying goes into the poultry feed because the data is not readily available. And I can -- I'm saying this from our experience in the markets where we procure and where we operate and where we see the capacities, etcetera, when we compete for procuring maize.

As far as exports are concerned, yes, that also fluctuates. It's not a consistent 10% every year. It happens, India has produced a non-GM corn, which is advantageous and it affords better export prospects. But it also competes with Ukraine corn. In spite of the conflict, Ukraine did sell some corn in the market last year and due to the pricing.

So, Mr. Giri -- to recap, 30 million tons to 35 million tons is a large estimate. These are estimates, the exact crop estimates could be considered at between 28 million tons to 30 million tons. 10% exports is not a regular. It happens when the window of opportunity is conducive and Indian corn is cheaper in the ASEAN region, including Bangladesh and Nepal.

As far as consumption of maize is concerned, between 60% to 70% of maize goes into poultry and animal feed. Approximately, 10% you said was exported and between the 20% left, some of maize goes into direct foods and some maize goes into the starch industry.

Ritesh Poladia: So about 8 million tons to 10 million tons will come for processing. Will that be a fair understanding?

Bhavdeep Sardana: Not necessarily, some people say between 5 million tons to 8 million tons. So I am not at confidence to say, what will be the total. It can only be an estimate because not much data is available of some unlisted players and of other industrial users. You know, ethanol also has started.

Ritesh Poladia: Sure, sir. That's very helpful. Sir, like sugar, the sugar mills support the farmers by also there is a huge government R&D going on. So anything similar goes in the maize where farmer productivity is increasing or some specific varieties of maize is encouraged. Is there any industry trend if you would like to comment on that?

Bhavdeep Sardana: Yes, as far as the maize is concerned, maize yield is concerned. So all the top seed companies, whether it is Monsanto, Pioneer, Corteva, etcetera, they are all present in the space. They are all selling their seeds to farmers. Yield in Bihar could be comparable in some parts to US yields. Yields during the Kharif season in Central India and South India in Karnataka are also pretty good.

But as far as an outreach program is concerned, due to our federal structure, every seed company needs to take an approval from the Bose Centre and to sell in the state, you need to take approval there. So most people are -- so the regulatory landscape to operate for the seed companies is a bit difficult. However, they have consistency of operations. And I think, the hybrid seed varieties being sold are pretty decent. We are trying to work with seed companies to cater to a better extractability of starch varieties. For that, some discussions are happening and I believe the capability is there amongst the current gene pool available. Would that be okay?

Ritesh Poladia: Yes, sir, absolutely perfect. Thirdly, could you give your maize throughput for this year and the last year? How many tons of maize you have processed in FY‘23 versus FY‘22?

Bhavdeep Sardana: That data is usually available in our balance sheet, readily available, but approximately 4 lakhs, more than 4,20,000 tons, 4,30,000 tons was processed.

Ritesh Poladia: And would it be the similar in last year or there is some volume growth this year?

Bhavdeep Sardana: No, there is definitely a volume growth and going forward there would be a volume growth again.

Ritesh Poladia: So, FY ‘24 will be crossed 4,50,000 tons to the minimum?

Bhavdeep Sardana: Efforts are on, efforts are on to grow as much and that is why some capacity expansions or deep bottlenecking also at some areas is being planned by the company.

Ritesh Poladia: Sir, also from your raw material to your sales realization, is it safe to assume that you would be value adding about INR10 to INR12 a kg in the maize? Like if you buy at say INR22, your ultimate selling price would be somewhere near INR35?

Bhavdeep Sardana: Mostly, what you are trying to simplify in terms of understanding for yourself, it is a little bit more complicated than that, lot of market dynamics, etcetera, and demand and supply, but we are always trying to maximize our margins based on the market conditions prevailing at that time.

Ritesh Poladia: Sure, sir. Sir, there was some discussion that corn sugar will be allowed to sell at least for the industrial consumers, any update on that?

Bhavdeep Sardana: Sir, can you explain what type of corn sugar you are referring to?

Ritesh Poladia: I believe in USA all these soft drink companies, they use corn sweetener.

Bhavdeep Sardana: The product which you are referring to is high fructose corn syrup and our parallel is with Brazil, not with US because US uses high fructose corn syrup because it does not have sugar, it does not have sugar plantations. So if you see India with adequate sugar, sugar would always be at the forefront and a larger crop and corn and starch and starch derivatives find their way in specialized food, specialized food processing and complements the sugar industry.

Ritesh Poladia: But not compete with the sugar industry.

Bhavdeep Sardana: No, we do not compete. So the usage in a candy, the recipe is both, you need sugar and glucose.

Ritesh Poladia: Yes, but sir on high fructose corn syrup, so that is not viable in the Indian economy, would that be a good understanding?

Bhavdeep Sardana: Viability, so I am not, the viability can change, viability can change but because of the sugar industry being present in such large numbers, they would be, let me put it this way, they would defend their market share if suddenly the starch industry decided to set up HFCS. But to replace, to produce the HFCS to replace sugar, at least with the Cokes and Pepsis of the world, at least in India would mean adding a significant quantum and capacity to the starch industry, which I do not think can happen overnight and everyone is mindful that you come into any industry and compete with an existing player, it may not always be a profitable scenario by the time you realize your production capacity.

Ritesh Poladia: That is wonderful to hear sir, sir just a comment on your procurement, maize procurement, so is it through middlemen or is there any efforts to procure directly say from farmers, what are the industries?

Bhavdeep Sardana: We have a mixed model, we have a mixed model, we do extension services where we need to grow, increase the growing area in our surroundings and we have, we work with aggregators, we work with aggregators near the market yard, we work with aggregators, large ones and small ones as well. So we have a mixed model, we work everywhere, we have a different model and all these supply chains are open to us and available to us.

Ritesh Poladia: Sir, what is the peak inventory you would be carrying because on the balance sheet it looks like you would be less than 30 days, but what would be the peak inventory you would be carrying?

Bhavdeep Sardana: The peak inventory fluctuates depending upon how we see crop, but typically as a thumb rule you can take between three to four months we try to carry or we go up to four months.

Ritesh Poladia: Up to four months, but the crop availability is not an issue for you because…

Moderator: Sorry to interrupt, Mr. Ritesh, may we request you to re-join the queue? There are several participants waiting for their turn. Thank you. Our next question is from the line of Aditya from Securities Investment Management Co. Please go ahead.

Aditya: Hi sir, thanks for the opportunity. Just continuing with the industry structure question, so is the maize processing industry in India consolidated among four to five players, where they might have around 70% to 80% market share or is it more fragmented?

Bhavdeep Sardana: There is a fair degree of consolidation amongst the top four or five players and the rest is fragmented. Like I said earlier, not all data is available. There are only a few listed players and amongst those listed players, I would expect that between 50% to 60% of the market share could be covered. Again, this data would need to be verified. Because one can have an installed capacity but the operational efficiency could be far low, it depending on everyone's circumstances and I can't comment on that.

Aditya: How has this trend moved in the last five to seven years? So has the share of top five players been increasing only or it has remained constant around 50% to 60%? Because in US, what we have seen is that the top six to seven players control 90% to 95% of the market. So do you think such a phenomenon can happen in India as well?

Bhavdeep Sardana: I feel that long term as our consumptions grow and as the product profile matures, we are still a growing economy. We are still an economy where significant -- so like I said, going forward, there is a good chance of consolidation to happen in our industry. Smaller niche players will always exist but as the country has more prosperity and the population grows, that will define the product mix in future. And we are I would say, at an evolving stage. And we are trying to add on a product mix with a changing customer base, the requirement locally.

Aditya: Thank you, sir. And sir, we have been mentioning in our annual reports that in India only around 40 different products are made from starch while internationally we produce more than 1,000 product varieties. So have we seen an increase in this number? And what needs to happen for this number to increase?

Bhavdeep Sardana: There is an increase in the existing products which we are manufacturing. Like I said, India is a unique market as compared to say China, where they use, consume a lot of fermentable products indirectly through meat consumption. India being a predominantly, where 60% of the population is vegetarian, 65% is vegetarian, we have a different product mix. What we are seeing is specialized products in the paper industry, textile industry. With the advent of COVID and the pandemic, we are seeing a renewed focus on health and wellness. And I am seeing some trends which are going to continue. So at present new products are being imported and as the market for those products increases, there will be opportunities for Indian manufacturers to add new products.

Aditya: Okay. And value-added products, so on what basis do we classify a product as value-added and what we should classify it as a basic product? And what prevents others from producing these value-added products? Because I believe, many players in the industry are manufacturing maltodextrin and dextrin. Just wanted to understand what is the difference between the two?

Bhavdeep Sardana: So that's a very good question, very intelligent question. Since we have a product portfolio which encompasses everything that any of our competition is making, broadly speaking, having the degree of flexibility to produce everything gives us the opportunity to increase the product production depending upon the demand supply situation of that. And we are mindful of increasing our profitability.

So sometimes if I need to produce more basic starch, but customized fine tuning of specification for our customer, we are adding value for the customer, we are able to secure larger order and extract a little bit of a premium. So that always helps. So you can't say that starch is not value-added. If I can offer a better value point to a customer in terms of fine tuning my specification and working very closely on the technical sales element, I can value-add my starch also.

Aditya: Got it, sir. And in the last four, five years, the share of derivatives has been reducing. So they have reduced from 45% to around 34%. And while the share of by-products has seen an increase from 20% to 29%. So what has led to this change?

Bhavdeep Sardana: So by-product pricing was good. So while the volume is, you know, when we produce, when we process maize, a fixed percentage of by-products come out. And with the price of palm oil going up, so maize oil and maize germ went up due to a certain shortage at a period in time for soybean and soybean pricing being high. Maize nutrient pricing was high. So that will fluctuate.

Aditya: Okay. So who do we sell these by-products to? Who do we sell these by-products to? And is the margin volatile in the segment?

Bhavdeep Sardana: So we sell our by-products. Well, I would not call them by-products. They are products. We package them and we give them to suppliers. In the poultry industry, we work with the Marico's of the world to give our maize germ and sometimes unrefined maize oil. So we service those customers.

Aditya: And in our presentation, so we have mentioned that the company's products have become more competitive in the international markets. So just wanted to understand how structurally something changed which has made us competitive and what is the outlook on the exports for next three to four years?

Bhavdeep Sardana: So the intent there is to say that the starch industry is competitive overall. At Sukhjit, there is not considerable export surplus. We are selling specialized products to certain key customers. But however, our export portfolio is considerably very small.

Moderator: Sorry to interrupt. Mr. Aditya may be request you to rejoin the queue. As there are several participants waiting for their turn. Thank you. Our next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: My first question is regarding the Sukhjit Mega Logistics Park which we have put up. I guess we have invested close to INR140 crores for that plant. So just wanted to understand how much revenue are we generating currently and what will be the revenue model of this park going ahead? How much revenue will this generate?

Bhavdeep Sardana: So Harsh Shah, I'll -- firstly, Sukhjit Mega Food Park is not a significant part of our overall business. Sukhjit Mega Food Park has been set up to provide services. So as far as revenue is concerned, we generated around INR65 crores of revenue. But it's more like a service model.

And the business, the Sukhjit Mega Food Park is a cash surplus. And going forward, we hope better realization from that business. But like I said, it is an infrastructure provider project and it is complementary to a food processing business. And at present, our unit located inside Sukhjit Mega Food Park, Sukhjit Corn Products, is utilizing the services and the service utilities set up inside the project.

Harsh Shah: I just wanted a better understanding. So do you mean that all the processing units which are based in Sukhjit Mega Logistics Park or Mega Parks, do they procure the starch and derivative products from you? Does that enable revenue generation from your core business?

Bhavdeep Sardana: Yes, Sukhjit Mega Food Park was commissioned in October 2020 in the middle of COVID. At present, we are working with, it has facilities such as cold store and frozen vegetables. In those frozen vegetables section, we are working with various entrepreneurs who are utilizing those facilities. In terms of number of projects set up, only Sukhjit Corn Products is running.

But I'm happy to say that all the utilities set up are running at optimum capacity and providing the services to Sukhjit Corn Products. And that is why we said we are cash surplus. We have space available and even so, the facilities which we are using, steam generation, power, warehousing, laboratory work, quality control, etcetera, are being utilized for operations at Sukhjit Corn Products, which is our maize processing unit, as well as the effluent treatment plant.

The intent for which it was created, it is being done at an optimum capacity. We are marketing our plots to larger players, but due to COVID, we could not get traction for that. But those are very small, I would say that business is very small compared to what we are discussing in Sukhjit Starch.

Harsh Shah: I understand that it doesn't contribute much to revenue, but the investment per se is on higher side. I mean, almost 20% of our gross block is invested there. So this revenue of INR65 crores which you generated, what is the expense against generating that revenue? And will it be continuous, recurring in nature every year, will it be generating this amount of revenue from this park?

Bhavdeep Sardana: So as I said, we are cash surplus. And I'm going to ask Mr. Setia, he has a point to make here.

Aman Setia: Due to the infra development project, obviously the payback periods are longer in the infra projects because of the high depreciation charge. The food park project is cash surplus, as Mr. Sardana has elaborated that the corn unit of the company is utilizing most of its facilities and also the food park is working on the perishable front and the frozen peas and other things. So in the coming years when we are able to lease out our infra developed projects and plots, the revenue will definitely going to increase in the coming years.

Harsh Shah: Okay. And in terms of growth, so going ahead, if I have to take a five year view, just wanted to understand how scalable this starch business could be. So we are at around INR1,500 crores of revenue. So in five years down the line, I mean, if you just have to hazard a guess, what kind of scalable opportunity this product or this basket of product could be and what would be the growth drivers for the company? I mean, will it be you entering new industries or new products or maybe acquire new customers or venture into export market? If you can just shed light on this?

Bhavdeep Sardana: Yes. So if you see our past growth, we've closed FY '24 at INR100 crores and you'll see FY '23, we closed at 1,400 plus. So that's the kind of continuous growth we've had and presently the management feels that we, the way the country is spoiled, there are opportunities for faster growth. So if you heard our presentation, we mentioned that we are going to increase our capacity by 20%, our installed capacity.

That could of course mean that our utilization at our plant would also considerably increase. So going forward, we are bullish in the business. I will not give you an exact number where we are going to be in five years, but if you see our past record and you see our immediate plan and we are bullish on our business and we keep on intent to keep on growing.

Harsh Shah: And last question, so FY '22, we saw our margins at around 14%, 14.5%. Would that be a peak margin for us or does this business has possibility to earn even higher margins?

Bhavdeep Sardana: Yes. So if I was at 14%, Sukhjit was at 14%, there was competition, which was at 17%. So as we are realizing larger capacity per location, if the market dynamics are aligned, maybe we can achieve higher numbers as well.

Moderator: Thank you. Our next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: Good to see the discussion and the insights from the company. I have two, three questions. So one, if we go through the history of a company, like if we go through the period of maybe 2013 to '17, '18 or '20, during this phase, we see that the company was kind of stagnant at a certain number capacity production for a longish period of time.

And then there was this big expansion, which we did, and then there was this step change in revenue. So and even when we look at the industry, we see that there are lots of companies out there. And when we look at their numbers, we see most of them are operating at 6%, 7%, 8% operating margins versus our margins of 11%, 12%.

So first question, what kind of revenue growth do you see at a sustainable revenue growth do you see for the company for say three to five year period one? Second, what kind of margin profile do you see versus the competitors? And are there any levers which we can which we have to improve this profitability that we have?

Bhavdeep Sardana: Yes, thank you, Ayush. I'll start with your comment on 2013 to 2018. 2013 to 2018 was a period when we were contemplating both the infra project and the Punjab greenfield facility. And due to delay in getting clearances, being a responsible corporate, we did not want to invest any money and start work until we had all the permissions, statutory permissions in place. It was an uncertain period due to various reasons.

There were political changes, both at the center and at the state where the statutory permissions were delayed. So the company lost out maybe on a good 24 months. And there was some kind of stagnation. And then of course, COVID happened. That also stagnated. I think FY '21 numbers took a dip. So the entire industry, the company went through the 24 month period during that window and that entire industry, the entire country went through a period of low growth in that period.

Going forward, like I said, with the current capacity utilization, we expect to improve on this. We expect that the capex which we are making will slowly unfurl in a period of 24 months. So it will gradually, it will not happen at the end of 24 months, it will happen in between. So that will give us a window of opportunity to increase our sales. Like I said, our industry grows at more than the rate of GDP. That has been the general trend and has been a consistent trend over the last many years. So we hope to continue with that. That's the bare minimum. The rest, I don't want to be a committal and misleading in forward-looking statements. But the intent is there to keep growing and our capex is targeted at ensuring that our future growth keeps happening.

As far as margins are concerned, at Sukhjit, we are always mindful of increasing our margins. There are some in the industry who may have displayed better margins than us due to their scale. And we are now trying to scale up as best as possible at all our locations to increase our margins or at least maintain them in case there is a downturn in the economy.

Ayush Mittal: Okay. Sir, second question is on the debt profile, like if we see, I think, given what we are doing, debt is still a bit high. Any thoughts on that?

Aman Setia: Actually, the long-term debt is not high. It's very low. The debt equity ratio is just 0.18.

Ayush Mittal: No, but we have to do...

Aman Setia: I'm coming to that. If you talk about the total debt, obviously, those are short-term. This is purely against the stocks, inventory of raw materials. So it will keep on changing. It will depend upon the level of stocks we are holding. So that is the reason the total debt figure you may consider high. But as far as the long-term debt is concerned, it is reducing year-over-year and will be squared up in a year or two.

Ayush Mittal: Okay. On this March end balance sheet, we see a very high jump in inventory?

Aman Setia: Yes.

Ayush Mittal: Any particular reason for that?

Aman Setia: The procurement of inventory depends upon the prevailing prices and number of things. So we tend to stock some more inventory, if we see competitive prices going on in the market, so it is just, due to that.

Ayush Mittal: Okay. Thank you.

Bhavdeep Sardana: Thank you.

Moderator: Thank you. Our next question is from the line of Deep Gandhi from Astute Investment Management. Please go ahead.

Deep Gandhi: Yes. Good morning, sir. Thank you for starting this call, sir, and hope you'll continue with this in the future also. So, sir, my first question is related to this value-added product only. So as you were explaining about it, so I wanted to further understand, the margin structure in this products. So if you can highlight, what kind of margin difference is there in a normal value-added product and normal product. And if also you can highlight, are the margins much more stable in a value-added product? If you can highlight more on this.

Bhavdeep Sardana: Mr. Gandhi, it's a strategic question, I will not be able to give you. That's why, I broadly said that, what is of value to the customer, we do that, but I cannot disclose, what our margin per product is. That I will not be able to share.

Deep Gandhi: Okay, sure, sir. But if you can just explain, if the margins are stable without giving any numbers in this value-added product as compared to a normal product?

Bhavdeep Sardana: See, again, it is a very general comment. If there are other sources of sweeteners competing or other sources of carbohydrates competing against us, derived from maize, then those products would be under pressure. But if the application of our products made by the industry, not only Sukhjit, is getting accepted, then there is a big demand for our products, not only in India, but also globally. So, that will happen. So as long as our products find value at the customer application side, we will always be competitive. Not competing, the industry will always be competitive.

And as our company, we are always looking at the landscape, at the competitive landscape and the customer application side to see, which way the customer is going. And we keep a track of any other competing product. It could be soapstone, as varied as that, and see the pricing and curtail or increase our production capability to optimize the product mix for increasing the profit share.

Deep Gandhi: Sure, sir. Sir, my next question is, so recently there were a lot of news articles talking about Government's increased regulation to start using grain as sweet stock for ethanol. So this is maybe, a bit long term question, but with this, do you feel the prices of maize can increase? So how does your company plan to mitigate this kind of increase in raw material prices that start happening because this will create an entire new industry, which will increase the demand for maize?

Bhavdeep Sardana: Yes, so you have to first understand that, ethanol pricing landed at India ports is lower than the ethanol pricing being offered by the Government of India. Right, so Government of India right now to propagate ethanol production in India, is giving an incentive to manufacturers to start producing ethanol from grain, which is surplus. Now grain surplus also includes broken rice, which competes with the potable alcohol industry.

As far as maize is being considered for ethanol, yes, the Government of India has issued that, they would look at maybe 4 million tons or 5 million tons going into ethanol. But the way the production is increasing, one of the questions earlier commented that, 35 million tons is the annual crop. This is the first time I am hearing it and we are in the industry. But going forward, area under acreage for maize will increase now with the Government's highest ever increase in MSP, about 6.5% yesterday got announced. So I think, traction will build up and pricing will be stable, not only in India, but global pricing will also be stable. So, at the end of the day, whatever the raw material cost is, it will eventually get absorbed in the market price.

Deep Gandhi: My next question is, I wanted to understand the industry portion in a bit more detail. If you can explain, how does a customer chooses, say, A company versus you and what are the factors behind it and how do you differentiate with the other players, who are there in the industry?

Bhavdeep Sardana: See, like any other customer, it's a combination of price and quality and off-rate compliance and service. So at Sukhjit, we try to offer not only this, we try to go beyond price, how to add more value to a customer to understand the customer's application and optimize the specification, so that repeatability and reliability of our products is always there and the customer is ready to work, for the long term.

Deep Gandhi: So sir, if you can give some number, what will be the pricing difference between say, your product and the competitors? Are you at the lower end or are you able to charge a premium?

Bhavdeep Sardana: Our results speak for themselves. I don't think, I will. So like I said, we compete and we mentioned earlier that, we compete within a certain geography. So, if there's a competitor based situated right next door to a consumer and I am two hours away, naturally they will have a better realization. At some places, we have a better landed realization. At some place, we have customers looking at us only and not looking at the competition because of the quality and the specification, which we follow.

Similarly, some of our competitors could enjoy a strategic advantage due to their location and better understanding of their customer close to their location. So, it's a very general game and I will not be able to give you specifics and there is no thumb rule on it.

Deep Gandhi: Sure sir. So this is the last question from my side. If you can highlight out of your INR1400 crores revenue, just give some broad understanding on, what industries contributed to this INR1400 crores, in terms of revenue share from various industries for FY '22?

Bhavdeep Sardana: So the industries, which we service and because we have four plants, we are very diversified in terms of, who we service, what we service and this keeps changing with our expanded capacities per location and the customer profile at those locations. So, we have two units in the north, one in the east, one in south central. So we keep changing, adding customers and those mix keeps changing. So I will not give you an exact comment but yes, broadly speaking, as far as Maize Gluten and Maize Germ is concerned, we serve the protein and the oil and fat industries and we work with all the top players present in our location.

As far as starches are concerned, we work deeply with the paper industry, wherever paper industry is located near our units. In south India, we work with the textile producers in Thiruchendur, Somanur, Coimbatore, Erode. We work with FMCG players across all our units. Food is a constant across the country. So, it is a very diversified portfolio of products and customers.

Deep Gandhi: Okay, sir. Sure. Thank you.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from NV Alpha Fund Management, LLP. Please go ahead.

Nisarg Vakharia: Sir, two questions briefly. First question is that, what is the ROC on an incremental capex, if you were to set up a new capacity, of let's say 400 tons, 500 tons, 600 tons per day, what is the capex, that would go into it and what is the sort of gross block turnover or asset turnover, you would do on that capex?

Bhavdeep Sardana: I'll answer your question in three parts. The capex will be dependent on the location and the product mix, which you identify at that point in time. A 500 tons, 600 tons plant could be set up for INR200 crores, if it were only making one or simple starch and what kind of utilities were in place. It will depend on that. But if I were setting up a very diversified plant, with a lot of derivatives and a higher focus on sustainability and forward looking. So one could say, at that time, it could be as high as INR400 crores, INR450 crores. So again, it's depending on, what you want to set up, what value you see for the location, you have identified. So again, I would not, say it's a fair question for me to give you one answer. It's a very varying answer.

And typically, again, the asset turnover ratio, what you mentioned will depend on, what you set up, where you set up. It can range from 1.2 multiple to, if there were value added products, it could go up to, 2x also. So again, varying. I hope, I'm in the limitation of things, I have been able to answer your question.

Nisarg Vakharia: Sure, sir. Fair. Second question is that, are there any products, which are very sophisticated in terms of technology or scale, which are imported into India in maize derivatives, which we are not manufacturing today?

Bhavdeep Sardana: A very good question. Yes, they are sophisticated from, what at presently, what we are manufacturing, but they are not sophisticated in their country of manufacture. So, the entire world is looking at China Plus One. So, there are products in the category of both human nutrition and animal nutrition, which are gaining traction in India as well. And they are presently being imported of, all types of purity. And those plants are, I would say, quite scalable in China and certain parts of Southern Europe, from where they are being imported into India.

Now, an import replacement strategy for those products is available to the industry, but with a surplus capacity in places like China, with China restarting operations in the last quarter, it's a wait and watch. And as the Indian market grows and stability happens and technology becomes a little bit, more cheaper, Indian manufacturers in the starch industry will be quick to adopt those products.

Nisarg Vakharia: And lastly, sir, can India become an export hub? There are several companies in China, which are large exporters to Southeast Asia and all these other geographies. And, India was able to export a little bit because those capacities were shut. Can India sustainably become an export hub or that advantage will always lie with China because purely because of the reason that, it's a larger maize producing economy?

Bhavdeep Sardana: See, China has now become a net importer. China has banned export of maize because it is important for their food security. Because of animal protein, especially pork, maize goes not only directly into animal feed, but they make certain fermentable products, which go into animal nutrition. So, it's a very critical crop for them.

As far as Chinese exports are concerned, China exports certain products because of subsidy support to those units. I think, it's still there. On the other hand, Indian manufacturers are more resilient. There are consistent exports happening out of the Western coast and the Eastern coast in the last many years. The window of opportunities do come in a bigger number. They shrink away as well. But I would say, there is a consistent opportunity to be had.

And with the world looking at a China Plus One strategy, most responsible sector, whether it is the bulk consumers of the paper mills in Europe or in Africa or in the Middle East or even in certain ASEAN countries, they would want to source their starches from India, whether it is sorbitol. So those units in our industry, which are located on the ports are consistently exporting or they have a consistent share of their turnover, which is dedicated to exports, which is a win-win for the entire industry.

Nisarg Vakharia: Thank you, sir. And all the best.

Bhavdeep Sardana: Thank you.

Moderator: Thank you. Due to time constraint, that was the last question of our question and answer session. I would now like to hand the conference over to the management for closing comments.

Aman Setia: Thank you. On behalf of Sukhjit, I would like to express my gratitude to all of you for joining us today and sparing your precious time for us. We hope to see you back in our next con call. If you still have any queries or questions, you can write to, Madam Payal Dave or Mr. Bhavya Shah, in our investor relation agency, Orient Capital. Thank you, ladies and gentlemen.

Moderator: Thank you. On behalf of Sukhjit Starch and Chemicals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.