DCM Shriram Limited

Q4 FY20 Earnings Conference Call Transcript
June 9, 2020

Moderator: Ladies and gentlemen, good day and welcome to DCM Shriram Limited Q4 FY'20 Earning 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 '*' then '0' on your touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you Mr. Rangnekar.

Siddharth Rangnekar: Thank you. Good afternoon and thank you for joining us on DCM Shriram Limited's Q4 & FY'20 Earnings Conference Call.

Today, we have with us Mr. Ajay Shriram – Chairman & Senior Managing Director; Mr. Vikram Shriram – Vice Chairman & Managing Director; Mr. Ajit Shriram – Joint Managing Director; Mr. K.K. Kaul – Wholetime Director, Mr. J.K. Jain – CFO and Mr Amit Agarwal-CFO Designate of the Company.

We will begin the call with 'Opening Remarks from Mr. Ajay Shriram and Mr. Vikram Shriram', following which we will have an 'Interactive Question and Answer Session.'

Before we begin, please note that some of the statements made on today's call could be forward-looking in nature and a note to that effect has been included in the 'Conference Call Invite' circulated earlier.

I would now like to invite Mr. Ajay Shriram to give us a Brief Overview on the Company's Performance and his views going forward.

Over to you, Sir.

Ajay Shriram: Thank You. Good afternoon Ladies & Gentlemen and a warm welcome to the Company's earnings conference call for Q4 & FY20.

The Company recorded satisfactory performance during the tough business environment. The strategic initiatives taken by the company over the period and during this year, have all contributed positively to optimize the operations, financial performance and capital employed.

We increased Chlor-alkali capacity by 332 TPD ie about 22% in April 19, commissioned 200 KLD distillery in Nov 19 and 66MW power plant in Feb 20 to replace the old 50MW power plants. These projects added to the turnover and earnings during FY 20 and will provide benefits for the full year in FY21.

Simultaneously, we exited the bulk fertilizer trading business fully with the sale of our subsidiary, Shri Ganpati Fertilisers. We also exited the under-performing hybrid seeds businesses at Vietnam and Indonesia. These steps will help us in more efficient use of capital.

In our Sugar business, we have contracted to export almost 19 lac qtls of sugar and diverted almost 5 lac qtls of sugar to ethanol. These steps helped us reducing working capital requirements by ~ Rs 700 crores.

In continuation to the strategic path of value addition to businesses through higher integration, the Company has decided to enter into the business of Country liquor within the ambit of Sugar business. The board has approved an investment of ~ Rs.42.40 crores to set up Country Liquor bottling plant with capacity of 11,000 cases per day at Hariawan (UP) Sugar Unit as a forward integration of Sugar distillery operations. This will also enable swing capability with ethanol between Country liquor.

The COVID-19 and the Lockdown wef 24th March 2020 did result in suspension of operations in some of our businesses. The Sugar and Bioseed businesses continued normal operations. All other businesses have re-started operations between first week of April to Mid May '20. Fertilizer and SFS have reached normal level of operations. Chloro-vinyl, Fenesta and Cement businesses are operating at 50-70% capacity. The production is increasing in line with market demand. The prices of some of the products have been soft.

We are taking all required steps to protect our facilities and people by adopting the best practices during these difficult times. We have also engaged and worked with the communities to support through all possible steps. These include donations to govt funds, manufacture and distribution of disinfectants and sanitizers, Distribution of masks and gloves, spreading awareness, and working with district administration in supporting their efforts.

Now, I would like to share with you the business wise developments:

Sugar

Indian sugar balance continues to be in high surplus. Sugar stocks as on Sept 20 are expected to be ~ 12 mn tonnes against normal requirements of ~5mn tonnes. Covid 19 has adversely impacted the sugar demand and if the demand continues to be low, the inventory as on Sept 20 could be higher. The Sugar year 20-21 is expected to record higher production vs 27 mn tonnes expected for SY20. The country is expected to export about 5 mn tonnes of sugar in SY20. It is imperative that India continues to increase exports going forward so as to manage its sugar surpluses.

The ethanol program also requires further push. During SY 20, the industry expects to divert ~0.75 mn tonnes of sugar to ethanol through cane juice or Bheavy molasses. The overall blending% for the country is below 5% so far in this year. In this situation, there is need for more steps by govt to enable higher diversion of sugar to ethanol.

The overall cane arrears in the country as on May20 are expected to be about Rs 20,000 crores including UP arrears of about Rs 16,000 crores. The govts therefore have to continue with existing steps and take some further steps to enable the operations of this critical sector continue without major disturbances.

We completed the cane crushing for SY20 in May 20 with a total cane crush of 598 lac quintals vs 542 lac quintals last season and a recovery of 11.92% in the current season (on comparable basis) vs 12.09 % in the last season. The recovery after factoring in the impact of diversion of sugar through Bheavy molasses to ethanol, was 11.1%. The Sugar inventory as on 31st May 20 is 40.50 lac qtls vs 45.00 lac qtls last year. This could be possible through higher exports and production of Bheavy molasses into ethanol.

The second distillery commissioned in Nov 19 is working satisfactorily and has strengthened the overall business in all respect.

We will work with Govt for further sugar exports in coming months and also in the next sugar season. We are also taking all steps to maximize the overall ethanol production and also the Bheavy ethanol production.

We have also decided to set up a country liquor business for further integration nd value addition in sugar business. This would involve investment of Rs 42 crores and could use upto 5 lac qtls of molasses every year, which otherwise would have to be sold in the market at very low prices.

Chemicals

The prices of Chlor-alkali have witnessed a significant correction over last year. FY 19 witnessed abnormally higher prices which was a result of high global prices as well as restriction on imports last year due to requirements of quality approvals by Indian authorities. Normalization of imports at a time when domestic capacity was also increasing led to sharp decline in prices.

The global and domestic prices had started stabilizing before the disturbances relating to Covid19. Post Covid 19 lockdown, the clear pricing picture is still to emerge. So far however, the prices are range bound.

The domestic production capacity has gone up from 4.28 mn tonne on 31st March 19 to 4.50 mn tonne on March 20. The capacity may further go up by approx10% in FY21. The net imports of caustic soda in FY20 were 2.08 lac tonnes vs 0.73 lac tonnes last year. The domestic caustic prices are now aligned with international prices.

The trends in consuming sector are mixed so far. The textile sector and the construction related sectors are seeing slower start post covid 19 lockdown. This is restricting the capacity utilisation of the caustic plants.

We are reworking the implementation schedule of expansion of 700 TPD caustic capacity in Bharuch along with 500 TPD flaker and a new power plant of 120 MW, taking into account the disruption caused by Covid-19.

Plastics

PVC business has recorded lower prices globally as well as in Indian market after covid19 disturbances. The prices have come down by ~USD150 per tonne vis a vis pre covid levels. The experts expect slower improvement in prices for this item. The prices of carbide, however are firm and are expected to remain at these level.

With the commissioning of 66MW power plant at Kota, our cost structure will improve. The 40 MW additional PVC capacity will also help us in optimizing the relative movement in PVC and carbide prices.

Agri – Inputs

This segment covers our SFS business, Bioseed business and Fertilizer business.

Shriram Farm Solutions (SFS) is strengthening its focus on value added agri inputs. It is focusing on introducing differentiated and customised agri-inputs, which can help farmers deal with evolving challenges in agriculture. With forecast of a normal monsoon and positive impetus in Agri sector in the country, the business is seeing good growth in Khariff 20 and also going forward.

In Bioseed our efforts to diversify further into other crops is bearing good traction. Strategically, we have we exited from Indonesia and Vietnam operations. We continue to focus on India and Philippines. Our product pipeline across Corn, Cotton, paddy and vegetables is good. This along with normal monsoons will augur well for the growth of business in FY 21.

In Fertilizer, the government has removed ambiguities in the Modified NPS III urea pricing policy. We are hopeful for positive movement in this direction. However as a result of Covid-19, the government spending is under stress, which may lead to lower releases of subsidy dues in FY 21.

Fenesta

The business did well in FY 20, driven by volumes in retail as well as institutional sale. This was achieved in a tough real estate market. We also launched System aluminium windows during the year. This will help us in enhancing our customer segments and overall volumes. It will also enable us to meet more needs of our existing customers from single source.

Post Covid 19 lockdown, the Business has started well, actually better than the general expectations. We are seeing higher interest from retail as well as from project customers. We are also seeing faster mobilisation of construction activities. The business has already achieved over 50% of the size vis a vis pre-covid levels.

Due to Covid-19 and the pressure on the businesses, we are revisiting our fixed costs at the profit levels as well as at SBU level. We are sure that this will help us now and going forward.

To sum up, we feel we are strengthening our businesses every year in terms of diversity of revenue profile, competitiveness and consumer value proposition. We are also simultaneously ensuring healthy cash generation and overall strong balance sheet.

With that I would like to invite Vikram to walk you through the discussion on our financial performance

Vikram Shriram: Thank you. Good afternoon everyone. I will first discuss the highlights of our Q4 FY20 results.

Revenues during Q4 came in at Rs. 1,917 crores, higher by 2% YoY. The lockdown restrictions in March'20 adversely impacted the turnover by about Rs.

156 crores (including deferment of Rs 67crores). The business wise highlights are as follows:

Overall Sugar revenues grew 32% YoY to Rs. 838 crores. This follows higher distillery sales, better sugar domestic volumes and realization for sugar. Distillery volumes increased 83% YoY consequent to the commissioning of our new 200 KLD distillery. Chemical segment revenues stood 32% lower YoY due to lower ECU realizations by 35% YoY. ECU Volumes were lower by 4% YoY (Covid 19 effect being 10%). Softer Caustic Liquid and Chlorine prices both have driven ECU realizations lower. Value added segment of Shriram Farm Solutions reported 22% YoY growth in revenues. The bulk fertiliser volumes declined as a part of the planned exit strategy. Hence, the net increase in revenues was 2% YoY.

The Covid 19 effect included loss of sales in Chlorovinyl – Rs 49 crores, Fenesta Rs 17 crores and other businesses Rs 23.5 crores. The ethanol sales of Rs 67 crores got deferred and is likely to be made up in FY21.

PBDIT in Q4'20 stood at Rs 355 crores, lower by 19% YoY ie reduction of Rs 84 crores. The adverse impact of Covid 19 was ~ Rs 56 crores, including deferment of Rs 25 crores. The Main highlights are as under;

The decline in Chlor-alkali product prices adversely impacted the earnings by Rs 158 crores. Overall Sugar PBDIT was lower by Rs 28 crores YoY. The decline was attributable mainly to

a) Lower power tariffs:~ Rs 25 crores b) Deferment of ethanol sales: ~Rs 25 crores.

   Fertilizer PBDIT stood at Rs. 76 crores relative to Rs. -30 crores during same period last year ie a positive movement of Rs 106 crores. Rs 91 crores out of this movement relates to provisions for reimbursement of Fixed costs by govt. We had created a provision of Rs 38 crores in Q4'19 and Rs 15 crores during April-Dec 19 on this account. The total provision of Rs 53 crores was reversed in Q4 FY20, consequent to clarifications issued by the Govt on this subject. Cement recorded profits with better realisation and lower costs. Bioseed and SFS have very short season in Q4 and recorded lower losses with increase in turnover.

Let me also share highlights of the performance for full year FY 20. Revenues came in at Rs. 7,767 crores vs Rs 7,771 crores during FY19. Covid 19 impact as mentioned earlier is Rs 156 crores. Sugar revenues stood 7% higher YoY at Rs. 2,522 crores on account of higher distillery volumes by 23%, higher sugar exports and higher domestic sugar prices, up 8% YoY. Lower domestic volumes pulled down the overall growth. Chemicals revenues stood lower by 10% YoY to Rs 1,725 crores. ECU prices declined 23% YoY, partly mitigated by higher volumes of 13% YoY. Turnover of Value added inputs vertical of Shriram Farm Solutions went up by 16% YoY, Fenesta was up 7.5% and cement by 7%. PBDIT declined by Rs161 crores YoY to Rs 1,295 crores. PBDIT was impacted positively by additional profits from new capacities commissioned during the year:

• Chemicals-impact of additional production	Rs 142 crs
• Distillery	Rs 24 crs
• 66MW power plant (for about 1.5 months)	Rs 10 crs

SFS, Fenesta, Cement, Bioseed, Plastics also reported growth in profits. Chemicals PBDIT reduced 35% YoY to Rs 633 in spite of higher volumes as the softer prices had adverse impact of almost Rs 500 crores for full year. The reduction in power prices in Sugar business had an adverse impact of ~ Rs 52 crores. As mentioned earlier, Covid 19 adversely impacted the profits by Rs 56 crores. PAT during FY20 was at Rs. 711 crores vs Rs 906 crores in FY19.

The total capital employed net of cash went up by Rs 916 crore during the year. The net fixed assets went up by Rs 348 crores and Net working capital by Rs 568 crores. The company could restrict the working capital increase by expeditious export of all sugar export qty (~ 19 lac qtls) and by diverting over 5 lac qtls of Sugar to ethanol. Both these steps helped in reducing working capital by almost Rs 700 crores. The higher capital employed of Rs 916 crores led to net debt going up by Rs 358 crores. The overall net debt at about 1.5 times the EBITDA is comfortable.

The company has cash and cash equivalent of Rs 527 crores and adequate unutilised working capital limits. It has met all its business, financial and statutory commitments and expect to continue to meet these obligations going forward as well. We continue to focus on keeping our working capital under control during these times, while simultaneously enhancing sales volumes. We expect that these steps will enable us to have continuous positive cash flow going forward.

That brings me to the end of the financial discussion and will be happy to take questions that you may have. Thank You.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Tejas Sheth from Nippon India Mutual Fund. Please go ahead.

Tejas Sheth: Just two questions. Starting, I am happy to see that over last two, three years the capital allocation strategy of this company has improved substantially where you have invested good chunk of capital in high growth segments and divesting the segments, where we are not seeing much return on the capital. I just wanted to know going ahead considering that we have built up a good base of cash generation this year and I think even going ahead, what would be the capital allocation strategy for next two to three years?

Ajay Shriram: Thank you for asking this question. We have actually been always conscious and we have realized that money is expensive, we have realized that interest meter never stops ticking, no weekends, no holidays, no republic day holiday, no independence day holiday. So we are conscious of where we spend our money. And actually two years ago, I think we shared with all of you, we have made a long-term strategic plan of looking at which business we want to invest in and our strategy is to move in that. So we are looking at investing in our chemicals business for growing the existing business as well as the value added businesses. Similarly, we are looking at growing our Fenesta business; we are looking at growing our Sugar and Distillery business; we are looking at growing our Shriram Farm Solutions business carrying that forward. We are seeing what more investment is needed in the research side of a Bioseed business. So, I think in terms of capital expenditure, we have got a structured plan where we want to continue growing and investing in a considered wise way without overspending. I think that is the approach we have adopted and we will continue doing that. Of course, the COVID-19 pandemic which has affected the whole world as far as the business environment is concerned, has made us back a little bit and rework out our strategic timing of the investments we have on line. I think our Board felt this is the right thing to do. So we are working on that. But our plans to grow these businesses as we have talked in the past and what I have shared with you just now is very much on the agenda.

Tejas Sheth: Sir, any delay or deferment in the new capacity expansion of Chlor-alkali?

Ajay Shriram: Yes, we are reworking the time limits of how it is going to work out. We are discussing with our suppliers, we are discussing the market and seeing the market situation. We will take a call on that in the next couple of months.

Tejas Sheth: Sir, my second question was considering that chlorine is the co-product or bi-product along with caustic soda, and the current logistics issue would be impacting chlorine dispensation, is that also impacting our caustic soda manufacturing ramp up post-COVID or post-lockdown?

Ajay Shriram: Well, see, the caustic soda chlorine is an integrated business and we have to sell both. Caustic soda, we can convert to flakes and store. But chlorine, one cannot store too much. Good thing is that in our Gujarat factory, approximately 40% of our total chlorine production goes by a direct pipeline supply to five, six different buyers who are on a long-term contract with us. So that gives us a strength of buying and they have started their production, not at full capacity because their exports to Europe, etc., are affected, but they are picking up capacity. So in fact, in Gujarat, we are running today at over 60% the Chlor-alkali capacity. In Kota, it is running even higher than that. Both of them are impacted. But we are expecting over the next three to six months, production level should keep going up.

Tejas Sheth: Sir, a follow up on that only. We were looking to invest on the downstream products of chlorine. I think you also hired a business head to form up a business plan towards that. Can you just highlight on the status of that?

Ajay Shriram: In fact, that is very much on the agenda to move to a value added business in our chemicals business and because of this COVID, this got a little disrupted in terms of our discussions and the directions we are taking. But this is very much on the agenda. It is on the radar. We are working on that quite actively. But I do want to mention, the business head we have appointed is not only for this, it is for entire chemicals division. So the gentlemen who joined us, Mr. Shekhar is looking after entire chemicals business in Bharuch in Gujarat as well as Kota. And overall he is looking after this. This will include the value added chemicals also.

Tejas Sheth: How do you see the realization of caustic soda over next 12-to-18-months considering that the supplies going to pick up at a higher rate than the demand?

Ajay Shriram: I wish I could answer that question. But let us be real. I think no one can predict prices. As we had mentioned earlier, 2019 was unusual year in terms of prices. International business is down. The corona pandemic impact is across the board all over the world. So our focus and attention is how do we improve efficiencies, how do we reduce our costs, how do we optimize our supply chains so that our cost is minimum in terms of delivery to the customers and our costs is minimum in terms of ex-works cost of production. So that is our focus and attention going forward.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus Asset Management. Please go ahead.

Rahul Veera: Since, we will be delaying under implementation chlor-alkali plant, what will be the outlay for FY21 and FY22 CAPEX without the Chlor-alkali plant now?

J.K. Jain: See, one, we still have not worked out what the exact schedule of this project will be. It may be just playing around with a quarter-to-quarter also. The total investments of this project is Rs.1,070 crore. Earlier, we wanted to do in FY22 beginning. It may just get deferred by a quarter or two quarters but exact we will know as and when we finish the schedule.

Rahul Veera: I understand the volumes would not be there, but current ECU realizations will be around similar to last quarter Q4?

J.K. Jain: It is difficult to give numbers because right now the prices are changing every day. The focus is on volume increase. These are changing very fast. But the global prices are still range-bound as CMD mentioned in his opening remarks, they are still hovering within the range only.

Rahul Veera: There was a large capacity that was going to come near Gandhigram by Kutch Chemicals for the Chlor-alkali. Has it started sir?

J.K. Jain: Yeah, that started in March-April, with 500 tons per day.

Rahul Veera: So there will be some pressure on the realizations in the next one or two quarters?

J.K. Jain: Right now, capacity is not an issue. Everyone is operating at 60% only. So more capacity or less is not making a difference.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: I have two questions: First one was on sugar business. Sugar business has seen some impact; you mentioned in the opening remarks, less power sales by Rs. 25 crore and Rs.25 crore due to delayed offtake of ethanol. Margins in this quarter therefore year-on-year are like down significantly. Last year we had EBIT margins of 36%, now it is 23%. So for next 12 to 18 months what is your sense of this segment – do you anticipate any quick turnaround or it will be a while, what is your opinion?

J.K. Jain: See, the margin here is an issue of product mix. We have made very heavy exports during Q4. That is one is affecting the overall margin. Also, we did almost entire ethanol on B-heavy molasses, which has lower margin compared to C. So instead of comparing it on quarter-to-quarter basis, it will be good to look at yearly margins for your calculations or for making any judgment.

Anand Bhavnani: So if I were to look at from yearly perspective, you mentioned that for Caustic, 2019 was a great year and then from middle of 2019, the prices started following. So, if I were to do a similar comparison for sugar, how would you place FY’20 in terms of the performance – was it a normal year, was it above normal and how should we think of FY’21?

J.K. Jain: So as far as sugar price is concerned, I would say this is supported by government policy, so it was almost normal kind of thing in terms of sugar price. Ethanol is again a regulated commodity and power is also a regulated commodity. So we do not see any significant output price movement unless government changes its policy framework. The other significant factor is the cane price, which government still has to decide what cane price we will have for next year. So those two factors will decide what the margins will be going forward.

Vikram Shriram: Margins were also affected because of B-heavy molasses, which has lower margin compared to normal C-molasses, in this particular quarter.

Anand Bhavnani: In terms of capital allocation, you gave us a qualitative sense that we will be focusing on chemicals, fenesta, sugar and distillery and bioseed. So if you can quantify a bit like over the next couple of years, what kind of ballpark capex do you see for each of these segments?

J.K. Jain: I do not think it is done like that. There are proposals, which are continuous and are steady depending upon how mature a proposal is and how attractive a proposal is at a point of time, so it depends on that basis. But what CMD has stated is that these are the growth areas. Some of them are capital-intensive, some of them are not, I mean, like Bioseed or Fenesta are not very high capital-intensive, they are more operating expense-intensive. The main CAPEX happens in chemicals and sugar only. So there is no fixed ratio. We will take it up depending upon the merit of the project at a point of time. But all these are growth areas is what CMD has indicated to you.

Anand Bhavnani: In terms of capital allocation, do you have internal quantitative metric that you follow IRR or payback or ROCE?

J.K. Jain: There are two things we have said earlier also that one we keep our debt to EBITDA at around 1.5 and not grow in any case beyond 2, even in emergency. So that is one thing which guides the investments allocation. The second part is we have a hurdle rate. We look at, at least that project stage a hurdle rate of over 20%, but sometimes for strategic reasons, a little lower hurdle rate investment rate also. But as far as possible we look for more than 20% ROCE.

Moderator: Thank you. The next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.

Pratik Tholiya: Sir, just wanted to understand on the Caustic Soda and Chlorine part. You said your capacities are already closer to 60% in Gujarat and even higher in Kota. Sir, based on your discussion with your end customers and you mentioned a lot of them are a long-term supplier, how soon that they are able to ramp up their utilizations to the pre-COVID levels so that our capacities can also go up to that, are they talking of any sort of timelines or looking at any sort of quarterly run rate or anything on that front?

Ajay Shriram: We have had a lot of discussions and continuously keep interfacing with our customers. I think it is very difficult to give such a concrete timeline because besides the domestic market, we are also working on exporting our products on Caustic Soda Flakes. That will also help us in terms of moving further or on chlorine market how to expand further geographically. So we are continuously working on improving capacities and balancing out the realizations. I think it is an ongoing exercise and I think as the economy in general in India and outside India pick up, I think this industry too will pick up. As I mentioned earlier, we do feel in the next three to six months, we should be in a much better operating capacity than what we are today.

Pratik Tholiya: Better would mean somewhere around closer to 75% based on the current scenario, I mean, the way things are normalizing or the relaxations that we are seeing today, things will only improve from here, do you think 75% we can achieve by say per quarter?

Ajay Shriram: Look, I will be honest with you I think we hoping we come to 75%, 80% in about three to six months, but it depends so much on the world economy and how India's economy moves forward.

Pratik Tholiya: And for capex, you said that there is some deferment. So other than that, we have only one capex that is on the Country Liquor, right, this is a confirmed CAPEX for this year?

J.K. Jain: And the normal CAPEX, that is all.

Pratik Tholiya: That is the maintenance CAPEX, that would be how much, sir?

J.K. Jain: It would be anywhere between Rs. 125 crore to Rs. 150 crore, but because of the present situation, we are still reviewing it and trying to see what can be minimized there.

Pratik Tholiya: Okay. Sure. Understood. And sir, what is the thought process in the agri business? This year we are expecting a normal monsoon and there is a lot of buoyancy in the agri sector, a lot of government reforms have also been announced. We have also been rationalizing on the products, so what is the strategy over there in terms of new launches and whether it's seeds part or the other farm solutions part, where do we see our business now going forward after you have cut the tail end and a lot of loss making segments are out?

J.K. Jain: See, there are two parts, one is bioseed side and second is SFS. SFS has a wider portfolio and it has launched several products in crop care chemicals as well as growth nutrients over the period. Bioseed unfortunately hasn't launched very significant except in vegetables, tomato and some corn because last year being a little tight agriculturally so they haven't tried new products. Also because of the issue for approval of new technology, there launch of new products is a little less than what we would like it to be. Now, both these businesses in any case during April, May have reported better sales and better collections. I thought it could also be a preponement of sales because of the fear that farmers have about lockdowns, there is a feeling that they are preponing in all the purchases. So, the critical thing will be what happens in June, in July if the sales carries on this trend I think we will register good growth. If it is actually a preponement, then June, July sales drop, then of course the growth will be less.

Pratik Tholia: Got it. Sir, just lastly I wanted to ask, so what would be the closing prices during the Q4 and what is it currently?

J.K. Jain: See, current price, as I said, is difficult to give right now because it is changing every day, we won't be able to give you the current prices. As far as Q4 ECUs are concerned, they were roughly same as Q3, there was not much change, individually also they were roughly the same level.

Pratik Tholia: Sir, but if you could give some color on, you know, today we are already on the 9th of June, so almost two months of the quarter and one week of this month has also gone, almost nine months are left. So, what is the sense on the prices, what are you seeing?

J.K. Jain: If you remember our past policy, we don't share the data in between the quarter. It is only done at the quarter end.

Pratik Tholia: Sir, I am not asking about specific numbers, but just in the similar type of trajectory or going up, down?

J.K. Jain: We won't like to deal with the price situation more than what CMD has already said in his remarks.

Moderator: Thank you. We take the next question from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: We are all like a bit of a stuck regarding capex, and that's because there are so many ifs and buts in businesses today, sugar prices are down, fertilizer subsidy we don't know when it will come, and chlor-alkali is volatile. So that's why the capex becomes very important. In terms of a certain quantum, you guided that debt-to-EBITDA will be max at 2x, even if there is an emergency. But it is already at 1.5x and this year looks tough. And then there is this NUP 2015 related capex which has to be incurred if the government dictates. So, could you just give us a flavor on what is necessary capex and what you will differ so that you maintain a debt-to-EBITDA below 2.0x? Thank you.

J.K. Jain: So, see, capex is only one item which you manage when you have to manage the fund flow. There are several other levers which we are working on, CMD and VCMD indicated that through our aggressive exports and shifting of B-heavy, we have managed, or we have been able to reduce the working capital requirement by Rs. 700 crore, which is not a small sum. So, it's not only capex, which will help us in managing the debt-to-EBITDA level, it is also the cost side, which helps in increasing the EBITDA and also the capex. Now, we already said that the only sanctioned project right now is the Bharuch expansion which is Rs. 1,070 crore which we are reworking out when should we take up, and the financing aspect, it will be one of the factors which will be considered. The only other project that we have announced, a small project of country liquor, so there is no significant capex which is planned other than this. So capex is already there, I think we will work on improving EBITDA and managing working capital so that we remain within this norm that we have specified.

Vivek Ramakrishnan: That's very helpful. Thank you very much. Just one question on this NUP 2015 fertilizer, do you have to do any capex or there is nothing which is slated for that?

K.K. Kaul: No, we are not facing any significant capex for meeting NUP requirements.

Moderator: Thank you. We take the next question from the line of Pritesh Chhedda from Lucky Investment. Please go ahead.

Pritesh Chhedda: Sir, I am just confirming chlor-alkali capex per tonne if you have to do now is about Rs. 25,000 to Rs. 27,000 per tonne, is that number correct? And when you say 20% ROCE is my target ROCE, so at the current ECU realization and the current EBIT that I see of about Rs. 9 or Rs. 10 per kg, does that 20% ROCE target meets at the current level?

J.K. Jain: So just wanted to clarify that this Rs. 1,070 crore, I think CMD had mentioned also, includes 700 TPD chlor-alkali capacity, it includes 120 megawatt power plant, and a 500 tonne per day flaker plant additional. So, the composition of these particular products varies at different stages. You won't be able to compare the capex at different stages because of this reason. So we don't require 120 megawatt only for 700, it will meet the captive power requirement of the earlier expansion also. So that is how this 120 megawatts has been derived, is not only for the 700 tonne per day. But I think our internal benchmark only gives us that whatever expenditure we are going to incur is amongst the most efficient and competitive in the industry.

Vikram Shriram: I would just add to that, there is a cost reduction element in that also, as JK mentioned, because it replaces borrowed power with own captive power to the extent of part of the existing capacity.

Pritesh Chhedda: So, in this Rs. 1,070 crore the additional expenditure is basically the power side, right?

J.K. Jain: Power and 500 tonne per day flaker plant.

Pritesh Chhedda: Okay. And at the current ECU realization, which looks like some 26,000, 27,000 and current EBIT which looks like some 9,000 to 10,000. If you put a CAPEX now, does it justify your 20% ROCE or it won't justify the 20% ROCE at the current ECU?

J.K. Jain: See, there are two factors, we don't have the latest calculations based on today's ECU. But obviously, in a commodity you can't take the bottom of the cycle for a CAPEX decision, neither can you take the top of the cycle for CAPEX decision. So it is done on the basis of an average sort of thing. But my sense is that even at 26,000, 27,000, it should be very close to about 18%, 20%.

Vikram Shriram: And it is looking forward 18 months, that is the implementation time.

Pritesh Chhedda: And I want to just clarify the capex for FY '21, now the capex for FY '21 as of now is just the maintenance capex of Rs. 150 crore, is that correct?

J.K. Jain: And the country liquor project of Rs. 42 crore that we have announced, plus depending upon the completion schedule that we freeze for Rs. 1,070 crore project, some capex for tying up the equipments will have to be incurred, which may not be very significant, but it will still be there.

Pritesh Chhedda: Okay. So, even this 700 TPD in your opinion now should be pushed to FY23 as commercialization?

J.K. Jain: I think, let us complete our review, we will share the schedule at the earliest.

Pritesh Chhedda: And I was just looking at your presentation, do you mind sharing what were the sugar volumes sold for FY '20? And what was the caustic chemicals volume sold?

J.K. Jain: So, I think in our presentation all those details are given, but I can give you the sugar volume. Domestic was 50.9 lakh quintal, vis a vis 55 lakh quintal last year, and export was 12.79 lakh quintals as far as sugar is concerned. As far as chemicals is concerned, our sales volume was 5.25 lakh tonnes.

Moderator: Thank you. We take the next question, it's from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir, first question is on this sugar country liquor investment which you have made, so I just wanted to understand that we have been talking on forward integration in our ethanol business. Just want to understand that how much forward integration we are willing to take ahead in this country liquor business going forward? And though it currently looks like a small investment of just Rs. 40 crore, Rs. 45 crore, I just want to understand that what are your thought process and what kind of investment over next two to three years we believe that we will be able to make in this business?

Ajit Shriram: So basically, Rohan, over here, this investment of Rs. 42 crore is in two phases, Rs. 33 crore is in phase one and Rs. 9 crore is in phase two. And that will perhaps be in the year 2022. So, the forward integration which you are talking about, at this point of time, we are only envisaging making country liquor. However, going forward, the business team will need to come out with any other kind of forward integration that we would like to do after a couple of years.

Rohan Gupta: Because I understand that earlier we had planned that we will restrict ourselves till the ethanol, because that will give us the complete backward as well as forward integration. It seems now that, I mean, we are getting ambitious in terms of now moving ahead with the country liquor. So, I understand that it probably gives up the choice of either making ethanol or country liquor probably wherever the margins will be higher. I just wanted to understand the thought process there.

Ajit Shriram: I will just clarify this a little further. There are certain obligations which the sugar manufacturers have to supply, I mean, molasses to country liquor manufacturers at a discount. So to be able to capture that value, we have decided to go ahead with the country liquor manufacturing ourselves so that we don't lose that value of molasses by selling it under obligation at a discount.

Rohan Gupta: Okay. Sir, second question on this caustic soda plant, on chlor-alkali plant. Sir, what is the breakeven utilization for us in our chlor-alkali plant? I mean at 60% utilization right now, are we breaking even or if you just can give that number?

J.K. Jain: It is positive at PBDIT level.

Rohan Gupta: At 60% utilization currently with the current realization of ECU, we are positive at PBDIT?

J.K. Jain: Yes, we are positive at PBDIT levels.

Rohan Gupta: PBDIT, I mean EBITDA level?

J.K. Jain: Yes.

Rohan Gupta: Okay. At the current ECU realization, right?

J.K. Jain: Absolutely.

Rohan Gupta: Okay. Sir, on this PVC prices, we have seen that we have taken from December onwards there has been an increase in PVC realization for us as far as DCM is concerned. But global prices of PVC have actually not gone up. So, is there any just a very temporary blip which we are seeing in a PVC realization for our company or it is mainly because of the currency depreciation and all in some other ways that we have been able to benefit?

K.K. Kaul: Yes, you are right, there has been a little high realization because the custom duties today are around 10%. But generally we have been the prices in India ruling at in comparison to the imported prices only. And we sometimes realize a little better premium because of the difficulties in logistics. And there has also been some benefit because of the exchange rate, the benefit that we are getting. And currently if you see, the present prices, there is a little disruption in the global supply chains also. So the entire imported demand, we are importing almost 60% of our requirement in the country. So there is a little restriction in the imports today. So that is helping the domestic production also, though the consumptions are much lower at this point of time.

Rohan Gupta: Okay. Sir, there was initially I think that recently there was talks also of imposing additional 15% duty on many chemicals. I think PVC was also a part of that. Have there any been further developments or any industry representations on that, that talks about the further imposition of any additional duty on chemicals?

K.K. Kaul: It's still under consideration by the government, so we are not sure how it's going to take shape. Yes, some industry has been kind of talking with the government on this, but nothing has been decided as of now.

Rohan Gupta: Okay. Just last questions from my side. Sir, this is more on the specialty chemicals, you have been looking at the forward integration on our chemical business, basically chlorine based derivatives. You have already hired Mr. Shekhar and I believe that the roadmap will be much clear now. I just want to understand sir, in a post-COVID environment there is a fair amount of, I would say, the expected change is expected from China and how the world is dependent on China for many chemicals. It's been now three months or so of the COVID environment, I just want to understand, do you see the chemical business for you, especially the forward integrated business on a chlorine based derivative and all, is going to change significantly or has been positively beneficiary of this COVID environment or how the world is reacting against China now and talking about the reducing the sourcing from China. Do you see that it has positively impacted your business or your future plans which you wanted to invest in forward integration of the chlorine business chain? And any update if you would like to share on that?

Ajay Shriram: See, our approach, what I mentioned earlier, is, we get into the business for the long-term. At the moment that things are very fluid and uncertain, but we go on the fundamentals of the growth of particular industries, the customer base, the needs and the forward outlook of what is the demand supply situation likely to be. So our view on our value added chemicals is still very much on. It is on the agenda. We are studying the various issues. Yes, because of COVID, we may have had to revisit and requestion some of the issues, but that does not mean we will not go in. We do plan to go in and go in that direction because we get into business for the long haul. It's not a one year, two years, but we are in it for the next 10 years and 20 years. And then we get into that and then we continuously keep adding businesses and value, so you keep growing it as a business. So long-term point of view, we will get into this regardless of what is the situation today.

Rohan Gupta: Sir, actually my question was the other way around. I am not saying that we will not get in, I am just saying that have we become even more aggressive or the opportunities have even increased more now in the current scenario? That is what I was looking from that angle.

Ajay Shriram: Frankly speaking, to be honest with you, unfortunately we do not seem to have increased much in what we are looking at, because we also are looking around. But because these value added businesses have their own status vis-à-vis society and vis-à-vis the future outlook of the business. But we are with the eyes open and we will see whatever we can get.

Moderator: Thank you. We take the next question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir, firstly about this 500 tonne per day capacity coming up in the state of Gujarat, who is the manufacturer of the new capacity?

J.K. Jain: Kutch Chemical.

Saket Kapoor: And this is a greenfield project?

J.K. Jain: No, they are already into some chemical businesses, they were not in caustic soda. So for caustic it's a new business for them, yes.

Saket Kapoor: Okay. And sir, how old are our plants? I mean, I think there is a filament change that happens, that improves the productivity from around 15% to 20%. So, any that kind of capex due?

Ajay Shriram: Filament in what business are you talking about?

Saket Kapoor: In the caustic soda segment.

Ajay Shriram: I think you are talking about membrane which is used in the electrolyzer?

Saket Kapoor: Right. I am wrong then in expressing it.

Ajay Shriram: It is very clear, we move with the latest world-class technology. And we continuously keep upgrading. And that is part of our philosophy. So today, our efficiencies and costs are comparable on a world-class scale. So we are continuously upgrading, so we are not looking at any one-time change of anything. It's an ongoing process to be world-class at whatever we do.

Saket Kapoor: Okay. Sir, coming to the point right now on this country liquor segment part, don't you think that there is a bit of more overcrowding that now all sugar manufacturers are doing? Taking advantage of the molasses being sold to the chemical industry is the only reason that is pushing people like you and other sugar manufacturer also to move into the country liquor and making the space a bit overcrowded and overcapacity?

Ajit Shriram: I think in this country liquor segment, the level of transparency in the state of Uttar Pradesh has increased dramatically in last three or four years. So, taking that into account, as well as taking into account the value loss by selling the molasses at a much cheaper price to country liquor manufacturers if you don't make it yourself, we decided to move ahead in this segment.

Saket Kapoor: Sir, could you quantify the delta? At what rate are we selling to the manufacturers and what are we going to realize out of the country liquor sales?

J.K. Jain: So, we sell at about Rs. 120 a quintal, the equivalent value through country liquor could be anywhere between Rs. 400 to Rs. 500 rupees per quintal.

Saket Kapoor: Okay. And a couple of more questions. Firstly about this subsidiary sale of SGFL, what has been the realization? And and how has this subsidiary contributed to the top-line and bottom-line for the last year?

J.K. Jain: So, as SGFL's turnover used to be I think about Rs. 30 crore or so. And as far as profit is concerned, it was a loss making entity for pretty long, EBITDA loss used to be about Rs. 2.5 crore or so on a continuous basis. So, that's why we have been looking for exiting this particular thing for quite some time.

Saket Kapoor: And whom have we sold to? And what is the realization value?

J.K. Jain: So, all this has been communicated.

Saket Kapoor: I will go to the stock exchanges, no issue for that. And coming to the urea business part, currently urea is a regulated segment and the issue of the subsidy and all, there is a flip flop now also from every government. So what is allowing us to keep this business in our vertical? I mean, what value addition are you finding in going through the urea business?

K.K Kaul: Yes, there are problems in this business, but this is also a part of our agri business. There are cash flow problems, yes, but we only hope that going forward the subsidy outstanding would reduce, because this business is still a very important part of our agri segment.

Saket Kapoor: And sir, for the Hariyali Kisaan Baazar part, could you explain to us how this fits into and what exactly is the business model here? It is generating good revenue, but not contributing to the bottom-line, what exactly are we doing here, if you could elaborate here?

J.K. Jain: So, see, this Hariyali Kisaan, we had started sometime 15, 20 years ago as a rural retail business selling agri inputs and other products. It also used to have petrol pumps selling diesel and petrol under BPCL alliance, so we were dealers of BPCL. Now, in 2012, we discontinued the entire Hariyali business and we have exited everything, except this BPCL petrol pump, which takes little time to transfer the dealerships, etc., and sell off the properties. So right now, we are in that process where we are continuously reducing and transferring the dealership and selling the property, it is not a business we are pursuing as such.

Saket Kapoor: Okay. So this turnover of Rs. 200 crore, is towards?

J.K. Jain: Is mainly towards the petrol and diesel of about 30 outlets that we still have, which also we want to exit at the earliest.

Saket Kapoor: So, what is the proceed we are expecting, when we would be exiting it?

J.K. Jain: See, the total book value which is mark-to-market every year is, I think, about Rs. 55 crore to Rs. 60 crore for the properties that we own. So, based on the latest estimate, we should be able to realize that much value.

Saket Kapoor: Sir, one very small observation. The effort the team is giving, the presentation and all, everything is top notch and I think so much above the industry level from if you take your peer comparison also. But sir we find that there is some disconnect which the management is having with the investor community, I am referring to the mutual fund, the PMS guys. Because in the shareholding pattern, we find around only 1% of our equity being held in the mutual fund fraternity, wherein our EBITDA to the market cap is at around 3.5x or at times 4x if my calculations are not wrong. So I think so our engagement in different verticals are definitely not giving the right valuation to the company. What is the thought process there? Because you people are continuing with buybacks, you are very liberal in giving dividends, you are continuing with the con-calls. So every good work is being done to enhance value. But where is the difference? Why that is not actually translating into the market capitalization?

J.K. Jain: So, we can have a discussion with you and take your inputs and we will also be discussing with other experts and see what more we can do.

Saket Kapoor: Right. And last point was about this Tonnestone Investment Limited, the overseas corporate bodies which are shareholders, Stephen Holding Limited, they are holding 4.5%. Are there any technology partner or some others who have invested in the company?

J.K. Jain: They are very long shareholders, I think they are holding it since almost 20, 25 years, I won't know more than that.

Saket Kapoor: Right. And overall, earlier the bank used to go for stress test for all organization, now the country and every business is going through COVID test. So going through what the circumstances are, how confident are you that the steps that we have begun, there will be sustainability in the revenue going forward also, the way we have navigated earlier. How confident are you that things are much under your control that whenever the sentiment and the utilization levels improve, the benefits will start going back?

J.K. Jain: So, I think the best will be wait for a month, we are having a rating reviews by all the rating agencies. We are rated by CRISIL and ICRA, that itself will speak. But we as management are very confident about the sustainability and the financial and business aspect of the company. We don't see any challenge on that account.

Saket Kapoor: On the sugar inventory level, if you could speak something as of now?

J.K. Jain: Sugar inventory, we have indicated in the opening remarks also for 31st March and the 31st May. As on 31st May, it is about 40 lakh quintal.

Saket Kapoor: For us?

J.K. Jain: Yes, 40 lakh quintal is for us only, for the country it is in million tonnes.

Saket Kapoor: What it was for March?

J.K. Jain: I think it was about 45 lakh quintal.

Moderator: Thank you. We take the next question from the line of Divya Jain from ICICI Mutual Fund. Please go ahead.

Divya Jain: So, I am basically trying to understand, considering the caustic soda has been in tough times because of the realization, so have we seen any player going out of business, the weaker players?

Ajay Shriram: No, I think caustic soda is a commodity. And if you see the last five years, seven year cycle, prices go up and down. That's part of the business. As of now, we are not seeing anyone going out of the business even though the prices are a little lower than what they have been averaging. But I think that depends player to player and how long this sustains and what is the sort of future outlook each one takes. So we have not heard of anyone which is stopping operations.

Divya Jain: On the client base we have for caustic, so I understand it is more of textile and construction. So, if any other venture was open to us or it will be concentrated to textile and construction?

Ajay Shriram: You are talking about?

Divya Jain: Basically our suppliers of caustic, so who we supply the caustic to?

Ajay Shriram: No, I think in the reports we have mentioned that textile and construction is under pressure, paper is also under pressure. But we are supplying our caustic soda, chlorine, caustic goods to a lot of aluminium manufacturers, a lot of soap manufacturers, a lot of other industries. Similarly, chlorine goes to a lot of value added chemical people, for water purification, etc.. So we have a very wide range of customers who buy caustic soda and chlorine from us, and we are not restricted to only one or two industry buyers.

Divya Jain: And sir, what could be the top five customers contributing to the cost? In percentage terms.

J.K. Jain: No, I don't have the percentage, but we don't have any such concentration of customers where top five will contribute 60% or 70%, not like that, it's pretty well dispersed set of customers.

Moderator: Thank you. We take the next question from the line of Arushi Chiplot from First Water Capital Advisors. Please go ahead.

Arushi Chiplot: I just wanted to know the scenario of imports for caustic soda for the last quarter. And what were the general prices? And from where all the imports were done?

J.K. Jain: So, the import happens at global prices, the Southeast Asia prices have been running at about $300 CFR for quite some time. I mean, plus/minus 5% or 7%, that is the general price. The general import into India happens from Japan and Korea on the eastern side, and from Iran on western port. So, these are the two places from where the imports happens predominantly.

Moderator: Thank you. We take the next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: So my question is regarding the power and fuel cost. So could you please tell us what is the coal cost currently? And what is the inventory? And what level you have bought for the next quarter?

J.K. Jain: See, Sumant, there are two, three observations we can make. One is that the coal prices have been on the softer side over a period. As you know, in Bharuch we are importing coal. The imported coal has been on softer side. If I remember correctly, I think fuel cost will be roughly 110 paisa to 112 paisa per thousand kilo calorie, and we use roughly 3,000 kilo calorie into one unit of power. So that is the broad metrics of the cost. At Kota, it will be higher, because there we use domestic coal that may be about 5 paisa, 10 paisa higher than this.

Sumant Kumar: So, why is the power and fuel cost lower in this quarter? And what is going to be in couple of quarters? Because there is a lot of volatility in the fuel prices.

J.K. Jain: No, coal prices, of course, over the last two quarters or three quarters have been pretty steady, marginally soft only. So there is not that much volatility in power cost.

Sumant Kumar: Okay. And talking about the overall industry revival, you discussed textile, paper and others, which industry is going to drive your business from 60% to 75%?

J.K. Jain: You are talking about chlor-alkali industry, is it?

Sumant Kumar: Yes.

Ajay Shriram: I will be honest, we don't look at one industry or two industries. We are supplying to 8 to 10 different industries, so all of them have to start picking up. And I think the government also wants all industries to pick up and start moving to take the entire economy forward, not one or two industries. Specifically, today paper is under a lot of trouble because all schools, colleges, offices everything is closed. So once that starts picking up, paper will also pick up. So we are looking at a large range of industries where we are supplying. And as the economy moves up to help them financially and otherwise move up, we will also get the benefit of that.

Moderator: Thank you. We take the next question from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Just wanted to understand with respect to our Hariyali Kisaan revenues, you mentioned it is all through fuel retailing, did I understand it correctly?

J.K. Jain: Yes.

Anand Bhavnani: So, we have seen that the EBIT losses have widened in FY '20, so can you help us understand the reasons for the same?

J.K. Jain: So see, there are two items which come there, one is the revenue and the EBITDA which happens through fuel sale. The second is whatever properties we are holding, and I mentioned that we are wanting to sell all those properties, whatever is the profit and loss in any year to stop those properties, that also gets reflected as Hariyali's profit and loss. So, the quarter-to-quarter movement must have been primarily in those profit or loss from property sales.

Anand Bhavnani: Sir, in India, broadly over the last four, five, six years, property rates either would have been stable or would have appreciated single-digit like inflation. So, how do we end up losing money selling property?

J.K. Jain: So, every year we are making an assessment of the entire property through independent set of valuers. The property condition in rural actually is worse than urban. All of you know that till last year or before last year, the rural was the one which was suffering the most. So the property transactions is very difficult to conduct in rural.

Anand Bhavnani: So sir, what could be the loss in the property versus the gain in the fuel sales? Can you give us the split up, what is the EBIT gain from this fuel sale?

J.K. Jain: To think it is very material we can get into that. To me, the overall number must be very small in Hariyali Kisaan Bazaar overall. But if you feel it is very material, you can contact us, we will give you all the details.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the confidence back to the management for their closing comments. Over to you all.

Ajay Shriram: Thank you. Ladies and gentlemen, we thank you for your participation in our Q4 and financial year 2020 earnings conference call. The present pandemic has emerged as a common challenge for mankind. And as a responsible corporate, we are focused presently on rendering all the help we can while simultaneously resuming normalized operations. We are also working on utilizing the learnings of this period to further strengthen our operations, including customer engagements, operating practices, supply chain, cost structures, working capital cycle, etc., on a sustained basis. Through our growth initiatives, efforts will be on further strengthening efficiencies, augmenting capacities and developing a stronger value added profile within our offering. We are confident of a sustained growth over the medium term. Once again, we would like to thank you for taking time out and joining us today. Thank you.

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