



DCM Shriram Consolidated Limited

Q3 & 9M FY2010 – Earnings Conference Call Transcript February 3, 2010 at 12:00 noon IST

Moderator: Ladies and gentleman, good afternoon and welcome to the DCM Shriram Consolidated Limited Q3 & 9M FY2010 conference call. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Ishan Selarka from Citigate Dewe Rogerson. Thank you, and over to you, sir.

Ishan Selarka: Thank you, Melissa. Good afternoon, everyone. Welcome and thank you for joining us on DSCL's Q3 & 9M FY2010 conference call. Today we have with us Mr. Ajay Shriram, Chairman and senior Managing Director; Mr. Vikram Shriram, Vice Chairman and Managing Director; Mr. Rajiv Sinha, Deputy Managing Director; Mr. Ajit Shriram, Director-Sugar and Mr. J. K. Jain, CFO of the Company.

You may want to keep in mind that some of the statements being made on this call may be forward-looking and a note to that effect was included in the release sent out to you earlier. We will begin this conference call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram after which we will have an interactive question and answer session. I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's operations in the quarter under review. Over to you, sir.

Ajay Shriram: Thank you. Good afternoon, ladies and gentlemen, and a very warm welcome to DSCL's Q3 & 9M FY2010 conference call. We are glad to report another quarter of satisfying performance of the Company. The Company continued to register operational and financial progress during the quarter. We continued to focus on consolidating and optimizing the returns from the investments that we have made in the last few years, including our cost competitiveness. We also continued to strengthen our balance sheet further.

The fertilizer business has improved its cost positioning, margins and reduced the capital employed with a shift to 100% natural gas from April-May 2009 and completion of the maintenance turnaround in Q2 FY2010. Notification of the revised prices as per NPS III in October 2010 and announcement by the government, that urea is not likely to be covered in the first phase of the nutrient-based subsidies scheme, has given some stability to the policy environment for this business. The government has also initiated discussions on the policy after March 31, 2010 when NPS III comes to an end.

The Agri input business continued to leverage our brand, distribution network and rural reach combined with a mix of value-added products, to provide farmers with an enhanced basket of agri products. The lower and delayed rainfall has adversely affected off take of some of the products during the period. The rural focus of the government and the remunerative prices for agri produce provide a positive outlook for this business.

Sugar business is recording remunerative sugar prices with the continued short supply in the Indian as well as the global markets. This is enabling us to offer remunerative sugarcane prices to the farmers and make sugarcane a viable crop. The farmers are turning positive towards cane, which is expected to result in an increase in the area under cane for the next season. The ongoing crushing season, however, is likely to record only marginal increase in sugar production primarily due to better recovery. The capacity utilization will remain about the same or marginally better than last year and, thus, the sales volume in the coming year will remain low. The profitability from co-gen is better as a result of the increase in the power prices announced by the UP government with effect from October 1, 2009.

Hariyali Kisaan Bazaar is focusing on increasing its offerings and attracting more customers to the outlets, having established extensive presence in rural areas during the last two years. The outlets offer primarily four categories of products i.e. Agri, food & grocery, household products, and lifestyle products. While some of these categories have started recording higher turnover, the offerings in some of the others are being realigned to customer's requirements. Simultaneously, steps are being taken to strengthen the supply chain and other processes to improve the margin. The business is taking little longer to stabilize, but offers attractive long-term potential to the Company.

The Chloro-Vinyl business has four revenue streams i.e. Chlor-Alkali, carbide, PVC, and power with high swing capabilities. The kota complex continues to do reasonably well at an overall level. The Company continues to actively manage the product mix so as to optimize the contribution per unit of power generated in these businesses. Individually, the businesses are experiencing diverse environment with some of them facing pricing pressures. The coal price increase with effect from October 2009 and increase in global coal prices is leading to higher cost of production. The Chlor-Alkali business is recording low prices since the last couple of months resulting from new production capacity in the country and lower global prices. This is likely to continue for some more months as the new capacity gets absorbed in the market. Our expanded capacity and the coal-based power plant at Bharuch, which was commissioned in Q3 FY2009, has stabilized fully and has helped in recording higher volumes and lower cost.

The plastic businesses include PVC resin and carbide. PVC resin has seen better prices after December 2009 while carbide prices remained firm. The cement business is recording good margins with favorable market conditions, though the product price has seen some softness of late. The business is also seeing some cost increases with the prices of coal going up. The strong demand growth should continue to provide support to this business.

The Fenesta business has seen a good demand for the product resulting in better revenues and profitability. This quarter witnessed an encouraging demand from the retail segment while witnessing an initial pickup in the institutional segment. This business is on track to achieve operating profits in the current year. We are further increasing our retail presence to more cities from 42 at present to about 70 while strengthening our dealer network. The product portfolio is also being expanded to cater to different segments. We are confident of recording good growth in this business in the coming years.

Our bioseed and hybrid seed business has entered a strong growth phase with the launch of new products in cotton, paddy and corn, which have been well expected in the market. The Company is simultaneously taking steps to further strengthen its research program, both in conventional hybrids as well as biotechnology. With this in mind, we have entered into a strategic partnership with KeyGene (Netherlands). This partnership will provide us access to KeyGene's state-of-the art molecular breeding technology platforms which will accelerate the speed, precision, and cost effectiveness of our hybrid seeds research program. We are exploring such arrangements for the biotechnology side also. During the quarter, the board also approved the proposal to merge

Shriram Bioseed Genetics India Limited (SBGIL) with DCSL with a view to achieve financial and operational efficiencies in the seeds business in India which has entered a high-growth phase.

In December 2009, the Company sold 100% of its stake in its energy conservation business DESCO to M/s Dalkia India Pvt. Ltd., a company belonging to the Veolia Group, France. This will enable growth of the business and its people.

To close, we are happy to report that while some our new businesses have entered high-growth phase, the existing businesses have starting realizing the benefits of recent investments and improving the cost competitiveness. I would now request Vikram to take you through the financial numbers for Q3 & 9M FY2010. Thank you.

Vikram Shriram: Thank you. Good afternoon, ladies and gentleman. I will now summarize the financial results for the quarter ended December 31, 2009.

Total revenues for the quarter stood at Rs. 833 Crore. In fertilizers, the revenues were lower as a result of using 100% gas as feedstock, which is cheaper under the long-term agreement with KG basin instead of high-cost naphtha, as was the case in the corresponding period last year. The impact of change in feedstock was approximately Rs. 70 Crore for the quarter. This however does not have any impact on the earnings as it a pass-through cost.

In sugar, revenues were lower during the quarter on account of lower sales volume. In agri-inputs, revenues from this business were lower as a continued result of low rainfall in certain regions. Hariyali revenues increased by 44% to Rs. 216 Crore. In the cement business, revenues were higher by about 20% at Rs. 36 Crore compared to Rs. 30.5 Crore due to increase in volumes and higher realizations. In Chloro-Vinyl including power sale business, revenues were marginally lower at Rs. 181.3 Crore from Rs. 185.3 Crore due to lower production of downstream products and lower prices of Chlor-Alkali. Fenesta business reported increase in revenues by about 20%.

EBIDTA for the quarter stood at Rs. 108 Crore as against Rs. 99.5 Crore in the corresponding quarter of last year. This was mainly due to improved earnings of fertilizer business post maintenance turnaround in Q2 FY2010. The notification of revised NPS III has also led to higher profits vis-à-vis the corresponding period last year. The earnings from the Chloro-Vinyl segment were buoyed by increased sale of power from the Kota plant. The higher volumes from expanded Chlor-Alkali capacity at Bharuch along with cost economies due to coal-based power plant at

Bharuch also helped in improving the profits of this business. Firm sugar realizations helped sustain earnings despite lower volumes. Higher earnings from cement business operations were helped by improved volumes and better realizations.

Interest expenses were sharply lower as our effort to strengthen the balance sheet resulted in reduction of borrowings by about Rs. 600 Crore and also lower interest rates. PAT for the quarter was Rs. 36.2 Crore as against Rs. 9.1 crore in the corresponding quarter last year. The nine-month PAT was Rs. 71.4 Crore compared to Rs. 21.04 Crore in the same period last year.

Let me now take you through our business-wise performance for the quarter under review. Fertilizer business had lower revenues consequent to use of 100% gas as feedstock and marginally lower production. The impact on change of feedstock as mentioned earlier was about Rs. 70 Crore for the quarter and about Rs. 261 Crore for the year to date. This, however, does not have any impact on the earning as it is a pass-through cost. The production loss will be made up in the fourth quarter to reach the overall permissible level of production for the year. The PBIT for the quarter was higher at Rs. 10 Crore compared to Rs. 5 Crore last year as a result of higher energy savings with the use of gas and the completion of maintenance turnaround in second quarter.

Sugar business reported lower revenues during the quarter at Rs. 136.1 Crore as against Rs. 222 Crore on account of lower sales volumes by about 67%, that is 3.7 lakh quintals compared to 11.4 lakh quintals. The earnings were stable at Rs. 37 Crore as against Rs. 38 Crore during the quarter due to better margins helped by firm realizations. The higher power prices also helped in maintaining the profits. For the nine months, both the revenues and PBIT were higher at Rs. 525 Crore and Rs. 55 Crore respectively as compared to Rs. 499 Crore and Rs. 40 Crore last year.

In Hariyali Kisaan Bazaar, revenues increased to Rs. 216 Crore; up by approximately 44%. This growth is mainly attributed to new outlets opened in Q3 and Q4 of last year. In terms of categories, the agri, fuel, seeds, and trading business registered growth in revenues. However, earnings from the Hariyali business at this investment stage are negative. Barring the effect of monsoons, Hariyali is continuing to aim at reducing losses through increasing turnover and strengthening its supply chain and product and service offerings.

Chloro-Vinyl business revenues were lower at Rs. 181 Crore compared to Rs. 185 Crore on the back of lower production of downstream products. The margins have improved despite Chlor-

Alkali business being under pressure due to a) power sale higher by 125% and better realizations at Rs. 6.3 per unit, an increase of approximately 5%. b) The company's Bharuch operation, despite lower realization, was helped by higher volumes consequent to capacity expansion and lower power costs.

Revenues and PBIT in the cement business were higher at Rs. 36 Crore up by 19% and Rs. 13 Crore up by about 240% respectively on the back of higher production at low cost and better realizations. However, the volumes were lower for the nine month period by 3% due to a shutdown taken in the Q2 FY2010.

The Fenesta business falls in "Others" business segment of DSCL. The business has witnessed a revenue growth of about 20% in the current quarter. Orders of the Fenesta Building Systems stood at 174,412 windows as of December 31, 2010, which includes approximately 37,000 windows booked during the quarter Q3 FY10.

The Company's other operations reported as 'others' in the financial results primarily includes Fenesta, polymer compounding and textiles. Revenues under 'others' grew by 25% at Rs. 76 Crore in the quarter under review. The healthy performance was aided by improved results in Fenesta and polymer compounding business.

These on a broad level are our financial numbers. We would be glad to take any questions that you may have. Thank you.

Moderator: Thank you, sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: What are the internal targets for the next two-three years in HKB? How many stores will you open and what is the breakeven target? What are you doing to get this business in profits?

Ajay Shriram: As you are aware, we have increased the Hariyali Kisaan Bazaar outlets very rapidly in the last two years, i.e. from about 160 outlets to 300 plus. Lower rainfall affected some off take last year and we felt that this rapid growth requires us to consolidate and re-look our processes and systems as well as how to improve the efficiencies of the same. Secondly, I think

the rural market is something which is quite untested by anyone. So, we have done a lot of market surveys to get feedback and gauge what the pulse like is, what the desires are like, what is the product range, what are the type of products that are required in the rural market. So, based on that, we took a decision to consolidate this business in the current year. We focused on our purchasing systems and strategy based on customer needs and preferences.

Now, let's look at our supply chain all the way through. Our logistics, which is involved in moving the product right from the vendor's site to our outlets, as well as the processes and the IT implementation, is very heavy in the Hariyali business. We have got TCS, who is handling the backend of our entire IT package which includes handling our entire data bank for our retail business. So, we took a decision to focus on improving the efficiencies rather than just putting up more outlets because we feel that the potential of sales from each outlet itself is quite large. That is the decision we have taken right now and we are moving to make a solid foundation which can then take on growth more aggressively in the time to come.

Bhavin Chheda: Can we expect this to return some profits in FY11 or FY12 or will breakeven still be two to three years away?

Ajay Shriram: It is difficult to say, but we feel it will take a couple of years.

Bhavin Chheda: Is it making cash losses also?

Ajay Shriram: It is making cash losses also at the moment.

Bhavin Chheda: In the Chloro-Vinyl segment, the profits have been driven by power sales. So, how many megawatts are available for open market and will this continue?

Ajay Shriram: As we mentioned, the sale of power fluctuates. See, we are selling power under agreement with the state government. We are also selling to trading houses, which are trading in power, as well as through the exchange. So, ours is a very dynamic model where on a day-to-day basis we are optimizing our power sale vis-à-vis the contribution per unit of power we get from our own products. So, we have been selling between 50 to 60 megawatts of power from Kota Complex and this is what is helping us. See, our objective in the Chloro-Vinyl business is to optimize the earnings per unit of power generated.

Bhavin Chheda: So, what is the average realization of power in the quarter and nine months?

Ajay Shriram: I think it is about Rs. 6 plus, from the sale of power.

Bhavin Chheda: So, basically, the arbitrage will continue depending which division gives better profits?

Ajay Shriram: Absolutely. I think that in our view is the most optimal way to go ahead. For instance, PVC prices have gone up in the last couple of months, as we mentioned earlier. Now, that is leading to a better realization per unit of power, also. In fact, we have a team who looks at it daily to take the decision on how to move.

Bhavin Chheda: In the fertilizer segment, there has been a substantial reduction in capital employed. Will it remain the same way going forward?

Ajay Shriram: Yes, it should, because the price of gas vis-à-vis the price of naphtha is so much lower, so our entire outstanding with the government comes down substantially. So, it is helping us in our cash flow, interest cost while helping us use a cleaner fuel.

Bhavin Chheda: What is your term and working capital debt and what will be the cash balance?

J.K. Jain: Total debt is about Rs. 1,400 Crore, out of which about Rs. 1,100 is term debt and Rs. 300 is short-term debt. Cash balance is a normal transactional balance of Rs. 25 to Rs. 30 Crore.

Bhavin Chheda: I think your debt was around Rs. 1,900 Crore in March. So, you have repaid around Rs. 500 Crore?

J.K. Jain: It was about Rs. 2,000 Crore in March. So, as our chairman said, we have reduced debt by about Rs. 600 Crore during this period.

Bhavin Chheda: What will the CAPEX for FY10, FY11 and FY12 be?

J.K. Jain: We have not finalized that. However, we have a normal CAPEX of about Rs. 30 to 35 Crore, which will continue.

Bhavin Chheda: Do you have any other projects which you have planned as of now?

Ajay Shriram: Well, the projects we have on line is growth of our Fenesta business. That along with our seed business is expected to grow rapidly. Also, you might be aware that we have a hydel project bid in Himachal Pradesh. So, that is also something which is in the DPR stage and will take off at the appropriate time.

Moderator: Thank you, Mr. Chheda. The next question is from the line of Shrinath V from Probe Equities. Please go ahead.

Shrinath V: How many HKB stores do we have as of Q3 and, out of those, roughly how many stores are store-level EBITDA positive?

Ajay Shriram: As of now, we have 301 outlets. Stores that are EBIDTA positive are about 20% right now.

Shrinath V: Last quarter was also 20%. So, there has not been much of a change there?

Ajay Shriram: This is where the change is. It takes time getting the feedback from the customer and making the changes in the system. But, we are quite positive that in the next couple of quarters we will see good improvement because of the changes we are making now.

Shrinath V: You said that there are four category splits in Hariyali. Can you give some rough percentage estimates as to which of these four categories are more dominant in your retail format?

Ajay Shriram: I think dominance is difficult. See, all four of them move well. Bulk fertilizers are large because the value of fertilizers is large. Also, food and grocery and household and lifestyle segments are moving well.

Shrinath V: I just want to understand how the retail format is working for us, in terms of whether it is more of a consumer-led retail or is it more towards the agricultural products.

Ajay Shriram: We started this business with agricultural focus. Then, as the farmers and the family started coming and they wanted more and more things, we consciously structured the outlets to cater to both segments, which is the agricultural segment as well as the rural segment, which is non-agriculture. That is where food and grocery, household items and lifestyle products comes in and these are then catered to the requirements for the farmers and their families as well as the non-farming sector in rural India. So, we are consciously looking at all these four segments

as an important segment to provide an adequate range of offerings, which are satisfying the rural customers.

Shrinath V: From Q1 and Q2, we have seen a jump in revenues for Hariyali.

Ajay Shriram: True.

Shrinath V: Is the growth in Q3 over Q1 & Q2 of this year from the same store sales that we had one year back or is majority of it coming from new store opening?

Ajay Shriram: Yes, same stores. As we mentioned that in FY10 we did not add any more stores. The same numbers of outlets are giving a higher turnover.

Shrinath V: Is there more leverage in terms of increasing the same store sales growth on the current base?

Ajay Shriram: The sale per outlet is going up.

Shrinath V: Most likely, that would continue, right?

Ajay Shriram: That is what we want to focus on. We feel the potential for sales per outlet is more. So, how do we try to get a better range, better offering, and better pricing points to make it competitive, such that we get more footfalls and the sales per outlet increases.

Shrinath V: Was the merger in the seeds business done post the fact that your debt has been carried down considerably and you will be able to invest more into the seeds business each time as of now?

Vikram Shriram: This was a strategic merger. The investments required by the seed business, profitability of the seed business is more than adequate to cover its own investment requirements. It is to bring more transparency and visibility of the seed business to the investors. Also there are operational synergies between our other agri-input businesses and seed businesses, which can be optimized to further drive the business volume and profitability. So, it is at an operational level and it is to push up the growth. In terms of cash flows, the seed business is generating surpluses, which it will be re-investing for its growth.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera: Could you give the terms of what has been repayment on these term loans and how much has been the reduction in working capital?

J.K. Jain: As we said, the reduction is about Rs. 600 Crore total, out of which term debt has gone up vis-à-vis of the same period last year, though vis-à-vis March it has come down. So vis-à-vis March, our term debt has come down by about Rs. 100 Crore. The balance reduction has happened in short-term debt.

Sachin Kasera: Is this reduction primarily because of this reduction in fertilizer subsidy and liquidation of sugar inventories or is there change in terms of the overall cycle that you work on?

J.K. Jain: There are three reasons. One is, like you rightly said, there is reduction in fertilizer subsidy amount outstanding. Then, we were also holding fertilizer subsidy bonds, which have been sold off. There is also reduction in sugar stock and, finally, what we have also done consciously is that whatever has been the internal generation during this particular period, which is over Rs. 200 Crore, is being used to bring down debt because we have not taken any CAPEX or any such things significantly. So, all these factors have helped us in reducing the debt.

Sachin Kasera: So, as we end sugar production by March end, this working capital debt probably will go up once again because as the season progresses, the inventory will get further blocked.

J.K. Jain: Yes. But, that will happen for a couple of months since the production is likely to remain at the same level as last year or marginally better. It is not going to see a sharp jump over last year. But a valid reduction will remain.

Sachin Kasera: What would be the figure for term loan assuming we do not take any further CAPEX over and above the normal CAPEX for FY11 and what is the type of repayment we are seeing in the next 15 months?

J.K. Jain: Our repayments are about Rs. 110 to Rs. 120 Crore per year. That will continue.

Sachin Kasera: So, it should be below Rs. 1,000 Crore by end of next year.

J.K. Jain: We are aiming at that.

Sachin Kasera: Now with the availability of gas, we are seeing a lot of people going in for capacity expansion. What is the thought process of the management on that side?

Ajay Shriram: No, we have not looked at that right now because, you know frankly, when we discuss in the industry and internally at our board level that there is still not enough clarity of what the policy is going to be. For expansion and growth, if we take the urea industry, for instance, then our production is about 20 million tonnes in India. In the last five years, our imports have gone up from virtually 1 million tonnes to about 7-8 million tonnes and it is projected that over the next three to four years it would go up to about 10 million tonnes. So, we end up importing 50% of our requirements. So, we are hoping the government comes up with a rational policy for either Brownfield expansion or Greenfield expansion. At present, we are not looking at any investments in the fertilizer business.

Sachin Kasera: You have mentioned that it will take around two years for the Hariyali to breakeven. So are you referring to the cash breakeven side or the PAT side?

Ajay Shriram: We said it will take a couple of years to achieve cash breakeven side.

Moderator: Thank you, Mr. Kasera. The next question is from the line of Anup Mohta from Deutsche Bank. Please go ahead.

Anup Mohta: What is the current financing rate at which you are getting the funds from the market?

J.K. Jain: The short-term rate is between 5% and 6%.

Moderator: Thank you. The next question is from the line of Kumaresh Ramakrishnan from Deutsche Asset Management. Please go ahead.

Kumaresh R: Can you give us an idea of what was the closing sugar inventory that you had as on 31st December and the average realization for the quarter?

J.K. Jain: We had about 5 lac bags of free sale and about 1.4 lac bags of levy sugar as on December 2009. Realizations are about Rs. 31 per kg.

Kumaresh R: If you can also give some idea about what prices have you been procuring cane in the current season.

Ajit Shriram: The cane prices have been gradually going up during the season. The state government had announced a price of Rs. 165 a quintal whereas we started the season with an incentive of Rs. 15 starting at Rs. 180 a quintal. That has gone up in three or four stages and currently we are paying Rs.255 rupees a quintal.

Kumaresh R: Do you think this price will go up further till the end of the season or is it expected to remain at the same levels?

Ajit Shriram: It is very difficult to say. The season is coming to an end; it will end in about a month's time.

Kumaresh R: At the industry level if you can just give an idea of what you think would be the total expected production for the season? Is it expected to be around 16-16.5 million tonnes or would it be lower than that?

Ajit Shriram: It would be in the range of 15 million tonnes.

Moderator: Thank you, Mr. Ramakrishnan. The next question is a follow-up from the line of Shrinath V from Probe Equities. Please go ahead.

Shrinath V: What is the CAPEX that you have done this year till date?

J.K. Jain: It is about Rs. 25-30 Crore.

Shrinath V: Last four or five years you have done an average in excess of Rs. 200 Crore of CAPEX. Is there a trend shift going on or has been going forward at least for the FY11?

Ajay Shriram: I think as we have mentioned earlier, considering the economy last year the way it was going, we took a conscious decision that we are going to do all the essential capital expenditure which is required. So, that has been our focus and we have invested in that. The economy is better now but we will definitely get back on the growth path at an appropriate time.

Shrinath V: How many HKB stores were EBITDA positive at the same time last year?

Ajay Shriram: We do not have that figure.

Shrinath V: How do you see this spanning out 12 months down the line?

Ajay Shriram: As we have said that in a couple of year's time we expect it to come much closer to breakeven than where we are today. The objective about this consolidation exercise is to continuously bring about improvement in the operational efficiencies, the offerings to the customers, our logistics side, our promotion thing, our pricing strategy, which ultimately must reflect in a better bottom line. So, that is the direction we are taking and we are sure it will yield the correct results.

Moderator: Thank you. The next question is from the line of Akash Gopawar from Systematix Shares & Stocks. Please go ahead.

Akash Gopawar: Was DESCO a part of Chloro-Vinyl segment or any other segment?

Ajay Shriram: No, actually it was a 100% subsidiary of DSCL and the entire team of people used to; in fact, sit in the same building where the corporate office of DSCL is. So it was a standalone 100% subsidiary which had its own CEO and its own team of people. That was sold lock, stock and barrel with all the orders and all the people being transferred across to the new entity.

J.K. Jain: So, in standalone numbers, it does not appear. In the consolidated, it appears under other segment.

Akash Gopawar: Can you share the carrying cost of sugar in our books?

J.K. Jain: See, this season is still going on and the costs have not been finalized as yet. We will know at the end of the season. But, it will definitely be about Rs. 400 or Rs. 500 higher than last year because of cane cost going up.

Moderator: Thank you, Mr. Gopawar. The next question is from the line of Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera: What would have been the average for this season till date, any ballpark figure?

J.K. Jain: Average will be about Rs. 230 till date. But, what will the season end with, that we would know when it ends.

Sachin Kasera: What are the production figures we are looking at in the current season vis-à-vis the last year?

Ajit Shriram: We are looking at production figures being similar to last year or maybe marginally higher.

Sachin Kasera: We have seen a sharp decline in terms of the PVC volumes in the current quarter. Could you highlight the outlook on both the plastic as well as the alkali business?

Ajay Shriram: Chlor-Alkali, as I mentioned, is undergoing pressure because two new plants have come up and commissioned in the last six to eight months in Western India and that has put pressure in availability; consequently the prices have come down. So, we think that it will take a couple of quarters at least for the product to be absorbed in the market. But, the good thing is that the demand growth is moving well because the PVC market is growing well. In fact, in the last maybe one quarter, the PVC prices would have gone up by about 12%. So, that is showing buoyancy in the PVC consumption side. So, I think that is going to help the chlorine prices also down the road. But our feeling is that it will take a couple of quarters to come to a reasonable level, which we are happy with.

Sachin Kasera: So, till that time, power will be the key contributor in terms of it?

Ajay Shriram: Yes. I think our strength is that we have the swing capability to decide whether we want to sell power or whether we want to make a downstream product. PVC has done well, as we said the price has gone up. So, the contribution per unit of power has now come back to about Rs. 6 whereas in Chlor-Alkali it is lower. So, we are waiting for that also to improve. But, in the meantime we have the saving of power sale.

Sachin Kasera: So does this mean that the Kota plant for Chlor-Alkali is working at a much lower capacity whereas Bharuch is working at higher capacity?

Ajay Shriram: That's right. Bharuch is working at full capacity of about 430 tonnes a day. In Kota, we have the same capability with the power sale, PVC production, and caustic soda production.

Sachin Kasera: How are you procuring coal for the Bharuch plant? Is it on linkage or are we importing it?

Ajay Shriram: No, it is not linkage. It is imported coal because there the requirement of ash and sulphur is fairly low. So, we are importing coal and we get into contracts on that or spot market depending on judgment call of the purchase team or what is the most optimal way to pick up coal.

Sachin Kasera: How did the cost move on that front over the last two to three quarters?

Rajiv Sinha: Well, in the last quarter, the cost of coal generally increased because, if you remember, we saw fairly low prices two quarters back and in the last quarter, the prices moved up internationally and we also saw some increase in the coal prices even on the domestic front. Coal India also announced 11% increase, so overall coal prices were higher.

Sachin Kasera: What would the cost of power generation at Bharuch and at Kota be today?

Rajiv Sinha: Direct cost at Kota will be about Rs. 2.50 to Rs. 2.60 and it will be close to just under Rs. 3 at Bharuch.

Sachin Kasera: I think, you are also looking at some mines on the lignite side?

Rajiv Sinha: That's right.

Sachin Kasera: So, what is the status on that?

Ajay Shriram: We, in fact, got a lease in a place in Rajasthan which is about 400 km from Kota. So, we are working on that at the moment. We are working on making it operational and the land purchase is going on. We have got about half the land and we are moving for the rest. We are planning that it should become operational and start having lignite available for our Kota complex by, say, end of 2011-early 2012.

Sachin Kasera: So is the Kota power plant fully equipped to use lignite and what is the technical aspect of that?

Rajiv Sinha: Yes, I think most of our boilers are designed to use lignite. In fact, in the past, we have purchased lignite and used it to a very large extent to replace coal. So, the technical capability already exists.

Sachin Kasera: Any numbers that you could share in terms of what the total reserve of the mine is and what is the type of production we could have, once it is operational?

Rajiv Sinha: I think at this point we are still doing detailed exploration of the mining area and expect that it will last at least 15 years.

Moderator: Thank you, Mr. Kasera. The next question is from the line of Rishab Bothra from B&K Securities. Please go ahead.

Rishab Bothra: What kind of synergies do we see in Hariyali? Since we were more so focused on improving profitability in this segment during this quarter, the losses have increased in this segment.

Ajay Shriram: Yes. You see because we have expanded rapidly over the last few years; so that is why the level of business has gone up and that is why we took a view that we must actually move towards improving our entire supply chain and consolidate this business across the board. But, I think, ultimately, the requirement is going to be as to how one provides better products at a reasonable price so that we get more footfalls and more sales and that is why we are focusing on consolidating instead of putting up new outlets. The growth in the existing outlets is a major focus area and so the business will continue growing on a quarter to quarter basis and an important part of growth is to increase the turnover per outlet. So, the focus on growth is in terms of increasing the sales per outlet.

Rajiv Sinha: In the last couple of quarters, we have seen negative impact on buying capacity because of the residual affect of the drought that was experienced in Kharif. So, that has clearly impacted the buying surplus with the rural consumers and we are hoping that with the Rabi becoming better, this might change for the better.

Rishab Bothra: So, it is expected to improve going forward?

Rajiv Sinha: Yes.

Rishab Bothra: Can we have segmental disclosure for Hariyali separately because there is a lot of stuff like agrarian goods, consumer products, or different financial products and petrol pump. So, segmental breakup would give better clarity on what the revenue is like and profitability coming from Hariyali.

J.K. Jain: See, at this stage, each of those categories is not big enough to give a segmental breakup.

Rishab Bothra: With regards to our hydropower project; since one energy company has been completely sold out, what is the status for the hydropower project which you initially had in mind?

Ajay Shriram: As I mentioned, we are doing the detailed DPR for that. We have given that to a Canadian company and we are expecting that in maybe 3-4 months' time, they will come out with their report post which we will take it up with the state government.

Rishab Bothra: But I believe that even one and a half years back, the status was the same.

Ajay Shriram: No, you see because this area is beyond Manali in Himachal Pradesh. At a height of almost 11,000 feet one can operate there for about 6-7 months of the year. The rest of the year is snow clad. During this phase of DPR, they have to do measurements of water flows and soil and rock strength etc. So, when we spoke to the consultant there, they said it will take a couple of years because they do this over an extended period of time in terms of various parameters to determine what the actual capacity is. And they have said right from day one, it will take two years definitely or maybe more.

Rishab Bothra: So, what is the feedback you are getting from them? Whether, as of now, is the plant possible?

Ajay Shriram: Yes, absolutely. It is a positive feedback. The plant is definitely possible. Issue is what capacities can we peak further out of it and also I think a lot of analysis has to be done of the rock and the strength and the configuration and the structure etc. which will determine the actual construction of the plant and, consequently, the cost.

Rishab Bothra: So, how much time will it take as of now in case we plan to proceed further?

Ajay Shriram: I think it will take another 3 to 4 months to get the DPR and then we will discuss with the state government and then we will take it up after that.

Rishab Bothra: So, it will be almost three to four years or more than that project?

Ajay Shriram: It may take at least three to four years.

Rishab Bothra: Do we foresee India having to import sugar from the world market in the next season?

Ajay Shriram: Well, I will put it this way that considering what the cane price has been, we definitely hope there will be more cane availability next year. But to expect a jump to move from 15 million tonnes to about 24-25 million tonnes is unlikely. So I think we will have to import but we sincerely hope India will produce more.

Rishab Bothra: What is the expected rate in the international market and will it come down or remain as it is?

Ajay Shriram: That is very difficult to say. I mean, the prices today are touching over USD 800 which is unprecedented. I mean, the projection is very tough.

Rishab Bothra: Even if it goes down to USD 750 or say USD 600, it will definitely have an adverse impact on domestic realizations as well.

Ajay Shriram: Why is that? No, I think it depends on supply-demand here in India and what the import prices are like. But it is going to be linked, to a large extent, to what the sugarcane price is as the sugar price must have a correlation with the sugarcane price. Otherwise, two years ago, when the cane price was Rs. 12 a kilo and we were selling sugar at Rs. 12 a kilo, that is what led to the problem, because if you have a high cane price and low sugar price then the sugar industry is really in deep trouble.

Rishab Bothra: So, are we expecting removal of this additional 10% quota which has been implemented? The government has levied 20% in the next season.

Ajay Shriram: Well, there are two things involved. One is, I think, it will depend to a degree what is the actual quantity of production estimated for sugar cane, and second also which the industry is fighting for with the government is that the government has agreed to increase the price to levy sugar from Rs. 13 to about Rs. 17-17.50. So, that is also pending with the government and that will also have a direct positive impact on the bottom line.

Rishab Bothra: But that was about to happen at the same time when they increased the levy price.

Ajay Shriram: We also felt that. That is why the industry is taking it up very strongly with the government that you have committed to us at that time and please do it now. However, it still has not happened.

Rishab Bothra: With regard to FRP, will this come down or will Rs. 200 be a benchmark as of now, since we are paying Rs. 250 currently?

Ajay Shriram: Well, we do not know frankly as to what the policy will be, but the only thing that industry is moving for is that there must be some rationality and correlation within the sugar price and the sugarcane price.

Rishab Bothra: With regard to our power units which have been mentioned in the press release, does it include co-gen power also from sugar segment or is it separate?

J.K. Jain: Co-gen power is included in sugar segment and not in Chloro-Vinyl segment.

Rishab Bothra: So, how do we foresee the Chloro-Vinyl segment panning out as most of the diversion is to power only in that segment as of now?

Ajay Shriram: So, as you said, it depends a lot on the pricing of Chlor-Alkali on an ECU basis. So if the price goes up, we will reduce power sale and increase production of caustic soda and chlorine.

Rishab Bothra: How is the fertilizer segment and credit product segment (50:15) panning out?

Ajay Shriram: We have a fixed amount that we can produce per year i.e. 3.79 lakh tonnes of urea fertilizer. So, we will do that now with gas.

Rishab Bothra: But do we intend to have more than 100% capacity utilization because of the gas availability?

Ajay Shriram: We are going to have 100% in any case. One year, we did do more than 100% and that was in the last year and then there is a government policy on that. But this year, if you recollect, we had a shutdown of 20-25 days whereas last year that did not happen.

Moderator: Thank you, Mr. Bothra. The next question is from the line of Gaurav Gambhir from Deutsche Bank, please go ahead.

Gaurav Gambhir: Do you have any capital raising plans or equity infusion planned in the near to medium term?

Ajay Shriram: No, we are not looking at anything right now.

Gaurav Gambhir: What is the share capital and networth number ending December 09?

J.K. Jain: It is close to Rs. 1,300 Crore.

Moderator: Thank you, Mr. Gambhir. The next question is a follow-up question from the line of Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera: Assuming the fertilizer policy were to become conducive for expansion, does the Kota facility have requisite infrastructure wherein we can undertake a Brownfield or is that option not available at all?

Ajay Shriram: Kota has this as we have got enough land there to put up another stream. So that is not a problem, but it is a decision the board will have to take, that when you are looking at various investment opportunities for the group, where do we put in the priorities.

Sachin Kasera: The Fenesta business has started to do well and there is a good ramp up that we have seen. Where do you see the Fenesta business in next two to three years from now and what is the type of profitability or in terms of margins we can look at on that business generating later in FY12?

Rajiv Sinha: I think the kind of growth that we have already seen is about 20% plus and we would expect this or even somewhat better as the real estate sector in India picks up pace. I think that is the kind of growth we will see in the business and profitability.

Sachin Kasera: If you could give any indication in terms of what is the current margin in Fenesta business?

Rajiv Sinha: You know, this is a very difficult question to answer because there are different segments of consumers and the margins are completely different for each segment of consumers.

Sachin Kasera: I am talking about Fenesta as a whole as a business, what is the type of margin currently enjoyed?

Rajiv Sinha: I think it is about 10%-12% at EBITDA level.

Sachin Kasera: So, if we maintain this type of growth, say 20% to 25% in the next two-three years, can these margins improve or will they remain more or less the same?

Ajay Shriram: I think it will depend a lot on what the position is like vis-à-vis the PVC market as well as vis-à-vis the competition. But I would say that we are well positioned as the leader in this industry. I mean now, for instance, we have almost crossed over 500,000 window installations, which is the largest in the country, definitely. So we have a leadership position and are quite sure that the business will grow well.

Rajiv Sinha: Margins should be robust and I think we should see some improvements.

Sachin Kasera: I understand on the seed business, you cannot share may be the numbers for nine months because it is in a separate subsidiary, but if you could just tell in terms of direction how is that business during the first nine months vis-à-vis last year?

Vikram Shriram: I think it has seen about a 30% growth.

Moderator: Thank you, Mr. Kasera. The next question is from the line of Nirav Vasa from Gupta Equities. Please go ahead.

Nirav Vasa: Can you give some idea what is the sugarcane outlook that you are foreseeing for the crushing season based on the initial estimates as of now? I know it is a bit too early because this crushing season is not over. So, what is the actual mood among the farmers? Whether they are ready to go for a cane plantation as of now, because in industries there have been some talks that the sugar production will be close to 20 million tonnes in the next crushing season.

Ajay Shriram: Let me put it this way that I think the prices which are being paid to the farmers are now ranging from Rs 185 to Rs 255 and we do not know what is going to happen over the next one month, but these are very, very remunerative prices to the farmers vis-à-vis any other crop. So it will have a positive impact on the farmer putting in more cane and then we will have to take it from there. It is very difficult to give an estimate of what the actual expected crush next year would be.

Nirav Vasa: But, are there enough sugarcane seeds available as of now?

Ajay Shriram: That's also a challenge, but I think all the factories are working towards ensuring that seed is available and the factories are working on that.

Moderator: Thank you, Mr. Vasa. As there are no further questions, I would like to hand the floor back to the management of DCM Shriram Consolidated Limited for closing comments. Please go ahead.

Ajay Shriram: Thank you very much everyone for participating in the conference call. As we mentioned, I think couple of things we worked well in this quarter and in the past nine months. Our interest cost has come down substantially. Our swing capability at Kota complex between power, caustic soda, chlorine, and vinyl has given us a lot of strength in terms of optimizing the returns to the Company. Our focus on Hariyali in improving the processes and systems there; we expect that this will definitely give good results down the road and other businesses are moving well. So, we are quite positive on the outlook for the business. Our new businesses growth, whether it is Fenesta or seeds, is moving well and we expect them to become growth drivers in the future and contribute more to the total corporate kitty. Thank you once again for participating in this conference call.

Moderator: Thank you, gentleman of the management. Ladies and gentleman, on behalf of the DCM Shriram Consolidated Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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