



DCM Shriram Ltd.

Q4 & FY15 – Earnings conference call Transcript May 11, 2015 at 12:00 noon IST

Moderator: Ladies and Gentlemen, good day and welcome to the DCM Shriram Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. **Siddharth Rangnekar** of CDR India. Thank you and over to you, sir.

Siddharth Rangnekar: Good afternoon, and thank you for joining us on DCM Shriram Limited Q4 and FY '15 Earnings Conference Call. Today we have with us Mr. Ajay Shriram – Chairman and Senior Managing Director; Mr. Vikram Shriram – Vice Chairman and Managing Director; Mr. Ajit Shriram – Joint Managing Director; and Mr. J.K. Jain – CFO of the company.

We will begin the call with the 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 in this conference call may be forward-looking in nature and a note to that effect was included in the conference call invite sent to you earlier.

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the company's operations for the quarter and 12-months ended March 31st 2015 and the opportunities going forward. Over to you, sir.

Ajay Shriram: Thank you, Siddharth. Good afternoon, ladies and gentlemen and welcome to the Earnings Conference Call for the Quarter and year-ended March 31st 2015. I will take this opportunity to share with you our perspectives on the company's performance, following which Vikram will take you through the financial highlights of the company for Q4 and FY '15.

As explained, during Earnings Conference Call for Q3 2015 the prices of almost all our products Chlor-Alkali, PVC, Sugar, and Cement registered substantial decline in prices from September-October 2014 onwards. The prices of Chlor-Alkali and PVC recovered slowly from January 2015 onwards. However, Sugar prices continued to decline with the sharp drop in March 2015. Consequently, we had to take a Sugar inventory write down of Rs. 98 crores in FY '15 leading to a drop in our consolidated profit numbers.

Let me now take you through our businesswise highlights:

In the Sugar business, the crushing in 3 of our factories closed in March 2015 and the 4th factory on 14th April, 2015. The overall Sugar production at 29.6 lakh quintals was 7% lower than last year with a recovery of 9.9%. As stipulated by UP Government we have paid in full the first part of the cane payments within

the prescribed 14 days period. Also, have worked with farmers to enhance cane availability for the next season. The Operating Cost at Rs. 3100 per quintal was marginally lower than last year.

The Sugar prices touched a low of Rs. 2,400 per quintal and then recovered partly to Rs. 2,550-2,600 per quintal. This price implies a negative operating margin of over Rs. 500 per quintal. The prices are actually lower than the cane cost itself.

The Central Government did announce an Export Subsidy for Raw Sugar but it did not result in any significant Sugar exports. Even other measures announced by the government recently have not resulted in any price increase.

On the cane side, the UP Government has yet to issue notifications for the cash cane subsidy of Rs. 28.60 per quintal. We expect the same will happen in the next couple of months to enable us to release balance payments to the farmers.

In the Chloro-Vinyl business, the product prices have firmed up from the lows hit in December 2014 and the trend continues in April also. These prices are however still lower than last year. The Rupee depreciation should provide support to these prices. The prices of key raw materials, i.e., Salt, Imported Coal, and Carbon Material are lower. However, the Central Government's budget, Railway Budget and the Rajasthan Government's Budget has imposed additional levies on Coal and Power which will create cost pressures in this business.

Our domestic Bioseed business did well during the year. Robust increase in sales volumes of our BT Cotton offerings especially in the South and Central market led to higher topline and earnings during the year. In Q4 FY '15 the sales of BT Cotton in North was restricted due to delay in receipt of licenses from the State Government. The licenses have now been received and the sales will be made in the current Kharif season. The domestic business performance was however impacted by lower sales of Hybrid Cotton Seeds which was a result of lower corn acreage and lower government business during 2014. We have launched two new Cotton Hybrids in North and two new Cotton Hybrids for Rabi Corn which will support our growth in the medium term. Some more product launches are planned in the next few years in different crops.

The international business operations continue to face challenges of lower than expected sales leading to inventory write-offs. The new products launched by us over the last few years are showing promise. We plan to launch more products going forward. Further, Vietnam has approved commercialization of GM Corn. We also expect to firm up licensing agreements for the same soon so as to launch our GM Corn in the next 18 months. The product portfolio augmentation along with intensive marketing development work would lead us to turn around the international business in the next couple of years.

The Farm Solutions business during the year witnessed improved earnings and better margin profile on the back of higher margins in the bulk business. Our Value Added business witnessed stable performance during the year despite adverse climatic conditions in both the Kharif and Rabi seasons. We are focused upon driving robust growth in the business through aggressive marketing initiatives, increase in product portfolio and expansion of our distribution network.

The Fertilizer business' earnings improved in FY '15 on the back of increased reimbursement of conversion costs by the Rs. 500 per MT and energy saving during the year. The subsidy outstandings remained high for most part of the year resulting in higher Working Capital requirements. Inadequate reimbursement for conversion costs will continue to impact returns in this business. The Government is also planning a new Urea pricing policy which will have an impact on the operations and financial performance of the business depending when the policy comes out.

Fenesta windows business is performing as per plan. In FY '15, the Order Booking for Retail at Rs. 168 crores was 38% up vis-à-vis last year. We have strengthened our sales network in cities, set up nine Fenesta Studios, have a large direct sales force and a wider dealer network. We expect Retail segment to continue high growth over the medium-term. The project segment has seen some revival in H2 though for full year the Order Booking at Rs. 57 crores was 18% lower than the last year. We expect to achieve a positive PBT in this business in FY '16. The strength of growth in this business is in the right direction.

Our Balance Sheet continues to be strong with Net Debt at almost the similar levels as last year despite higher subsidy outstandings and timely cane payments. We are confident to implement our Rs. 650 crore Capital Expenditure plan in our Chemicals and Sugar business by October 2016 as per our schedule. Overall we expect Bioseed, Farm Solutions, and Fenesta to register healthy growth over the next couple of years and Chloro-Vinyl to record a stable performance. Sugar continues to be challenging though implementation of the new cane price mechanism by UP Government and disbursement of cane cash subsidy will provide some relief when we get that.

I would now like to request Vikram to take us through the financial highlights.

Vikram Shriram: Thank you. Good morning ladies and gentlemen. I will now summarize the Financial Results for Q4 and FY '15. Total revenues for the quarter were lower by 11% at Rs. 1,309 crores compared to Rs. 1,479 crores primarily due to lower volumes and prices in Sugar business, lower sales of bulk fertilizers and lower sales of Cotton Hybrids due to delay in approvals. PBDIT stood at Rs. 33 crores compared to Rs. 162 crores in Q4 FY '14. Excluding Sugar business the PBDIT stood at Rs. 80 crores versus 100 crores last year. Net Profits stood at Rs. (-40) crores compared to Rs. 83 crores in the corresponding quarter last year.

PAT had a negative impact of Rs. 21.6 crores on account of charge of MAT credit related to previous years. For the year, revenues stood at Rs. 5,639 crores versus Rs. 6,182 crores last year. This fall in Revenue was on account on lower volumes of sugar by 32% and bulk fertilizers, DAP and MOP by 41% during the year. Revenues excluding Sugar and bulk fertilizer was up by 5% at Rs. 4,273 crores. PBDIT stood at Rs. 450 crores vis-à-vis Rs. 559 crores last year. Net profit was lower by 13% year-on-year at Rs. 211 cores. Sugar accounted for a PBDIT drop of Rs. 72 crores.

Let me now take you through our businesswise performance: Chloro-Vinyl's revenues in Q4 stood at Rs. 308 crores vs. Rs. 319 crores last year. Adverse impact of lower realization and higher input costs led to a 26% year-on-year decline in PBIT to Rs. 72 crores. For the year, Revenue stood marginally higher at Rs. 1,242 crores versus Rs. 1,240 crores last year. This was primarily due to higher sales volumes of PVC resins during the year. PBIT for FY '15 at Rs. 317 crores was Rs. 57 crores lower than last year.

Sugar business revenue in Q4 declined by 27% year-on-year to Rs. 327 crores due to lower sales volumes and lower realizations vis-à-vis last year. FY '15 Revenues stood lower by 31% year-on-year to Rs. 1,037 crores primarily due to decline in volumes during FY '15 on account of low production in Sugar season 2013-14. PBIT for Q4 stood at Rs. (-56) crores versus Rs. 50 crores last year. For the year PBIT stood at Rs. 68 crores compared to Rs. (-5) crores last year. Margins currently are negative about Rs. 530 per quintal. Negative margins have led to inventory write down aggregating to Rs. 98 crores. Sugar inventory at the end of the year was valued at Rs. 2,575 per quintal. We have not taken into account any benefit of cash gain subsidy for current season pending notification thereof by UP State Government.

Revenues from the Bioseed business during the quarter stood at Rs. 78 crores versus Rs. 70 crores in the same period last year and PBIT at Rs. (-11) crores versus Rs. (-29) crores. Indian operations had lower

revenues and profits since sales of BT Cotton in North were restricted due to delay in receipts of licenses from the State governments, which have however now been received.

International operations witnessed higher revenue and lower losses. Last year in Q4 they had a one-time inventory write down. For the year, Revenue was up by 25% year-on-year at Rs. 570 crores and PBIT was up at Rs. 32 crores versus Rs. 4 crores last year on the back of strong performance of Bioseed India business. Sales of hybrid BT Cotton seeds went up by 63% in Kharif 2014 versus the previous season. Lower sales of Hybrid Corn Seeds moderated financial performance of the India business. Losses of international businesses are down to Rs. 24 crores versus Rs. 46 crores last year.

Shriram Farm Solutions business' revenues during Q4 stood at Rs. 248 crores versus Rs. 313 crores last year. For the year Revenue stood at Rs. 1,417 crores as compared to Rs. 1,779 crores last year. This reduction was on account of lower sale of bulk fertilizers in line with market conditions. Delay in licenses for sale of BT Cotton in March 2015 led to lower revenues in the value added businesses during Q4. During the year, our 'Value-Added' business remained stable despite adverse climatic conditions during the year. Business' PBIT stood at Rs. 16 crores in Q4 up 9% over last year. For the year PBIT was up 8% to Rs. 87 crores on the back of better margins in bulk business.

Fertilizer business Q4 Revenues stood at Rs. 170 crores from Rs. 167 crores last year. For the year, Revenues were higher by 16% year-on-year to Rs. 726 crores on account of rising gas prices and higher reimbursement for conversion cost. PBIT for the quarter stood lower at Rs. 2 crores versus 8 crores last year. This decline was due to the Plant's planned maintenance shutdown that led to lower volumes and energy efficiencies during the quarter. For the year PBIT was up 61% to Rs. 37 crores primarily due to increase in reimbursement of conversion costs and energy savings achieved during the period.

Cement business' Q4 revenues declined by 17% Y-o-Y to Rs. 34 crores due to lower volume realizations during the period. For the year the revenues were up by 5% to Rs. 137 crores on higher volumes and prices. PBIT for both Q4 and FY '15 stood lower vis-à-vis last year primarily due to adverse impact of the rise of input cost and low realizations.

In the other segment, now comprises of Fenesta business and 50% of the Polymer compounding business based on the 50:50 JV with Axiall USA. We exited our Textile business in Q1 in FY '15. Fenesta business revenues during the year increased by 11% year-on-year to Rs. 182 crores on the back of a 29% year-on-year increase in Retail segment. The project segment had a drop of 24% in sales revenues. The retail now constitutes about 72% of overall sales revenues.

The company's Finance cost for the year stood lower at Rs. 112 crores versus Rs. 149 crores last year. Gross debt stood at Rs. 760 crores compared to Rs. 1,178 crores in March 2014. Net debt stood at Rs. 688 crores versus Rs. 683 crores in March 2014.

That concludes my financial review and we would be glad to take any questions that you may have.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Chintan Seth from SKS Capital & Research. Please go ahead.

Chintan Seth: On the Sugar division, we have not accounted the Rs. 28.6 per kg of Sugar subsidy, which UP Government had announced. What is its status? Will it be reversed in Q1 and how are we going to account it?

J.K. Jain: What we have said in the speech also is that we will account for it when it gets notified. As per the system which they had announced, post May they will work out the prices during the period and then notify the exact quantum of subsidy. So we will wait for the notification and account for it as and when it is notified.

Moderator: We have next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: On cotton, could you provide the overall packets sold during the year and the breakup in North and South?

J.K. Jain: For Kharif '14 we sold 44 lac packets, out of these 19 lac packets were in Central South and 24.5 lac packets in North.

Dheeresh Pathak: Can you please explain what kind of licenses do we need to sell cotton seeds and provide some detail on that?

J.K. Jain: The system is that each state every year issues licenses to the people, to sell those particular seeds and this is done on yearly basis. Typically it is done at the start of the season. In North, it typically used to happen in March, and this time it got delayed and happened in April.

Dheeresh Pathak: So this would have happened for the entire industry, this is not specific to us?

J.K. Jain: Yeah it is an industry issue, not Bioseed issue.

Dheeresh Pathak: In which all states was it an issue?

J.K. Jain: In Northern states of Punjab, Haryana, and Rajasthan.

Dheeresh Pathak: What was the volume decline for corn for us for the full year? How much was the decline in corn at the industry level?

J.K. Jain: Industry had about 13-15% decline in volume. We had a 20% decline primarily because we lost some government business, which we used to do earlier. Therefore, our decline was higher than the industry.

Dheeresh Pathak: Can you please give the revenue breakup between India and International during FY 15?

J.K. Jain: The total revenue of Bioseed was about 570 crores out of which 85% is India and 15% is international.

Dheeresh Pathak: What percentage of our corn revenue comes from Institutional business?

J.K. Jain: Last year it was very small. Within corn institutional was hardly about 10% or so.

Dheeresh Pathak: In Shriram Farm Solutions, the revenue growth is down for the full-year but margins are better, perhaps the mix was better. Can you give a full-year breakup in terms of bulk and value-added and also some guidance on margins going forward.

J.K. Jain: Our full year turnover of SFS is Rs. 1,417 crores out of which value-added is Rs. 625 crores and the rest about Rs. 800 crores is bulk. Now Value Added typically gives 8-10% gross margins and bulk gives anywhere between 1-2%.

Dheeresh Pathak: What was the growth year-over-year in the two segments?

J.K. Jain: Value-added as we indicated in this speech was flat, bulk actually declined because the market conditions restricted the bulk activity.

Dheeresh Pathak: What was then the reason for margin improvement during the year?

J.K. Jain: Bulk had positive margin this year whereas we had loss in '13-14 in the bulk business.

Moderator: Thank you. Our next question is from the line of Abhijeet Dey from BNP Paribas. Please go ahead.

Abhijeet Dey: What is the current level of sugar prices?

Ajit Shriram: The current level is between Rs.26.10-26.30 / kg.

Abhijeet Dey: Now with the season almost coming to a close do you see sugar prices firming up going ahead or there is enough inventory in the system to keep prices depressed?

Ajit Shriram: Inventory level on an all India basis is very high so I think the pressure on the sugar prices will remain until some more exports take place.

Abhijeet Dey: Sir the government some time back was talking about creating buffer stock in order to prop up sugar prices, do you see that happening?

Ajit Shriram: We are still hopeful that the buffer stock happens.

Abhijeet Dey: By the end of May do you think the UP government could come out with the notification?

Ajit Shriram: As we mentioned earlier what the UP Government has said is by the end of May the committee that's been constituted will sit and see the prices from 1st October, '14 till end of May and then based upon the average prices they will come out with the recommendations.

Abhijeet Dey: For the chlor-alkali business what was the CAPEX that you did in FY16 for the new capacity?

J.K. Jain: We haven't added any new capacity in '14-15. We have said that we will add new capacity by September '16 where we are going to incur a CAPEX of Rs. 534 crores.

Abhijeet Dey: Overall what was the CAPEX for FY15?

J.K. Jain: For FY15 roughly about Rs. 100 crores which includes all normal CAPEX.

Abhijeet Dey: So out of the Rs. 534 crores of capex how much would be spent in FY16?

J.K. Jain: It will be roughly Rs. 250-260 crores in FY16 and balance in FY17.

Abhijeet Dey: So in terms of net debt do you see that remaining stable in FY16 or it can come down a bit?

J.K. Jain: Post completion of these projects our net debt should be anywhere between Rs. 900-1000 crores.

Moderator: Thank you. We have next question from the line of Aman Sonthalia from Suvidhi Capital. Please go ahead.

Aman Sonthalia: Sir can you tell me how much subsidy we are going to get in sugar division from the UP government?

J.K. Jain: It depends on the price but at Rs. 28.60 / Qtl of subsidy the amount receivable will be about Rs. 85 crores.

Aman Sonthalia: Sir how is the PVC market currently compared to last quarter?

Ajay Shriram: Well the PVC market is satisfactory. With devaluation of the rupee and all prices going up the prices have also inched up a little bit which is a stable situation and I think India running at 8% GDP growth will definitely keep the demand also going at the stable level. But imports are also happening simultaneously. Today more than half of our requirement is imported and there is no new domestic capacity coming up so we have to compete with imports and so we expect prices to be stable along with a stable demand.

Aman Sonthalia: What is the current capacity of co-gen power in sugar?

J.K. Jain: The total co-gen capacity is 94 MW out of which 50 MW is for exports, balance for captive consumption and we are going to add about 17 MW when we finish off this project in October '16.

Aman Sonthalia: Do we have a distillery in our sugar division?

J.K. Jain: No. We do not have a distillery.

Aman Sonthalia: What is the reason we have not set up a distillery?

Ajit Shriram: We want the ethanol policy to be stable and the off-take of ethanol to stabilize and also with the strain in the sugar division we decided that we will put up the distillery in the second phase.

Moderator: Thank you. Next question is from the line of Chintan Seth from SKS Capital & Research. Please go ahead.

Chintan Seth: You mentioned Rs. 85 crores of sugar subsidy will be outstanding at Rs. 28 per Qtl of sugar cane. So once the notification comes this will reverse in subsequent quarter?

J.K. Jain: We have said that we haven't accounted for any subsidy in our March results so as and when it is notified, we will account for these subsidies which means we will take it as income in that particular quarter.

Ajay Shriram: And we will pay it to the farmer.

Chintan Seth: And what is the current outstanding to the farmers. Are we through all the payments?

J.K. Jain: No as we have said that UP government had announced that there will be a two-part payment to the farmers. In the first part we were to pay Rs. 240 per quintal which we had paid in full. The next Rs. 40 per quintal is to be paid only three months after the close of the season so we expect this Rs. 28.60/Qtl to also come in by that time to enable us to release this Rs. 40/Qtl payment.

Chintan Seth: As per earlier con calls we were of the view that Rs. 40/Qtl balance sugarcane due will be paid into two part – Rs. 28/Qtl will be paid by the UP government and balance is linked with the sugar price capped at Rs. 31 per kg, is it incorrect?

J.K. Jain: That is a wrong interpretation. UP Government had announced Rs. 40/Qtl incentive out of which Rs. 11.40/Qtl was in the form of various tax concessions for which notification was issued and therefore it's getting accounted for in the respective period. The Rs. 28.60/Qtl is what they have to still notified, so only that will be received now after notification.

Chintan Seth: Can you provide the Capex for FY 16?

J.K. Jain: We are implementing projects of Rs. 650 crores of which about Rs. 300 crores will be spent in FY16 and balance in FY17.

Chintan Seth: What amount of this total Capex will be funded by Debt?

J.K. Jain: Roughly Rs 300 crore out of debt and balance from internal accruals.

Moderator: Thank you. Next question is from the line of Pratik Poddar from ICICI Prudential. Please go ahead.

Pratik Poddar: Sir, PAT plus depreciation this year is around Rs. 320 crores of which Rs. 100 crores is towards CAPEX. Where have been the rest of this year's cash flows deployed?

J.K. Jain: There are two large changes in the working capital this year of which one is the subsidy increase. The total subsidy outstanding has gone up by almost about 100 crores. The other change is that we have made all cane payments in time whereas last time there was a large cane outstanding. In spite of cane payments being made in time our net debt has been maintained so that's where the internal accruals have gone.

Pratik Poddar: So the drop in trade payables, which I see from Rs. 1,310 crores to 1,120 crores, is because of the cane payments?

J.K. Jain: Absolutely.

Pratik Poddar: Sir, this Rs. 85 crores of sugar subsidy which we have not accounted for, will not be routed through the P&L, this will directly be accounted in the balance sheet and then be paid off? Is this understanding correct?

J.K. Jain: This subsidy receivable would credit to the P&L because right now we have accounted for cane at full price.

Pratik Poddar: So if I were to adjust for that sugar business' profits would go up, is that a correct understanding?

J.K. Jain: Yes it is correct understanding.

Pratik Poddar: Then assuming you receive this in the next or subsequent quarter, would there be a bump up in the sugar margins or sugar profits?

J.K. Jain: Yes.

Pratik Poddar: Any specific reason why we have not accounted this for?

J.K. Jain: Because it has not been notified so far so we don't have a legal claim to it.

Pratik Poddar: On the sugar side on the outlook you've mentioned that you expect UP Government to fully implement the sugar cane policy, how does that effect our P&L?

J.K. Jain: The cane subsidy is an integral part of the policy so whatever policy UP Govt. has declared on the cash cane subsidy if they implement fully it would mean our P&L will go up correspondingly.

Pratik Poddar: So Sir, next year would the cane procurement cost go down is that what you are indicating?

J.K. Jain: No. This is the policy which was announced for '14-15 as per which we were to get this subsidy but it has not been notified so there will be an income of Rs. 85 crores as and when it gets notified. Now with regards to '15-16 season UP government still has to announce the cane policy so it will depend on what they announce as the cane policy.

Pratik Poddar: So this Rs. 85 crores which we get in the subsequent quarters, assuming the policy gets notified, would directly flow-through our P&L and cash flows?

J.K. Jain: Absolutely. In terms of cash flow it will get compensated because we have to make payment to farmers also to the extent of Rs. 40/Qtl.

Pratik Poddar: Sir, on the Bioseed division we are of the understanding that this year especially on the cotton side the industry has faced production issues. So has Bioseed also been impacted by that and do you see sales getting impacted in the coming Kharif season because of this?

J.K. Jain: Yes you are right. There were lots of weather-related issues which affected the production so therefore there is restricted availability of cotton seeds for us also. We are therefore expecting a limited growth over last year otherwise we could have achieved a higher growth but because of limited availability the growth will be smaller.

Pratik Poddar: Could you quantify this in number of packets. What you have planned and how much you are actually expecting to sell?

J.K. Jain: What we are seeing is in terms of market we could have aimed at about 30% growth or maybe a little higher also. But because of limited availability we will grow at 15% to 20% over last year.

Pratik Poddar: How many packets did we sell for cotton last year?

J.K. Jain: We sold 44 lac packets.

Pratik Poddar: Because of this reduction in your production do you see your realizations going up which will compensate volume decline?

J.K. Jain: Realizations are controlled by the government for cotton seed and there is no revision by the government in the retail price.

Pratik Poddar: Is there any scope for increasing the realizations by reducing dealer margins?

J.K. Jain: Those are marginal changes not very significant actually.

Pratik Poddar: What is the average realization per packet in cotton?

J.K. Jain: About Rs. 750 per packet.

Pratik Poddar: With MRP at Rs. 930 for a packet of cotton, can the realizations increase from say Rs 750 per packet to Rs 800 per packet this Kharif season?

J.K. Jain: It is difficult, because you cannot suddenly restrict the dealer margins.

Pratik Poddar: What is the current Chlor-Alkali capacity? By how much would our Chloro Alkali capacity go up by once these projects are implemented?

J.K. Jain: Current capacity is about 780 TPD. Going up by about 500 tons per day, which is roughly about 160,000 tons a year.

Moderator: The next question is from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: What is the outlook for cotton and corn acreages? Can acreages remain stable in the upcoming season, or would you expect them to be down?

J.K. Jain: As far as cotton is concerned, our expectation is that acreage will not change significantly. However, last year there was about 6 to 7% re-sowing which led to higher cotton seed sales. Now that will depend on how weather happens and how much is the extent of re-sowing. So overall market which was 5.2 crores packet last year, could be anywhere around 5 crores packet depending upon the re-sowing factor. Now as far as corn is concerned it did register a sharp drop in area last year. If the weather is what is being forecasted, which is a shortfall in rain we don't expect it to go up this year also.

Abhijit Akella: Okay, but would you think it can remain stable?

J.K. Jain: It should remain stable for corn and cotton also.

Abhijit Akella: I guess the farmer must probably be buying your seeds in the market at less than Rs. 930 packet (including dealer margins), probably somewhere in the range of maybe 850 or 870. So would you think that given this shortage of your seeds expected this year the realization can go up by Rs 30-50 a packet in the upcoming season?

J.K. Jain: We are not expecting that kind of increase in this year.

Abhijit Akella: Sir, you mentioned that in Vietnam GM Corn has recently been approved. Are you planning to launch your products, and would it be your own BT Technology or you are in-licensing it from someone.

J.K. Jain: What we are saying is that Vietnam has approved introduction of GM Corn, which is approval for Monsanto and Syngenta, two companies which have been approved to launch GM Corn. We are in the process of tying up the technology with one of these companies, which we expect to complete in June-July, and then we will take about 18 months to launch our product of GM's variety.

Abhijit Akella: So this will basically be our hybrids incorporating the gene from one of these players?

J.K. Jain: Absolutely correct.

Moderator: The next question is from the line of line of Chetan Thakkar from Emkay Global. Please go ahead.

Chetan Thakkar: Just a question on the levy, the Rajasthan Government has levied a duty of Rs. 0.4 on captive power?

Ajay Shriram: Correct, per unit of captive use.

Chetan Thakkar: Okay, and on coal what is the levy?

J.K. Jain: There is a Green Cess which has been imposed by the Central Government, it is Rs 100 per ton.

Chetan Thakkar: Both these put together would have an impact of how much on the cost structure for the Chloro Vinyl business?

J.K. Jain: The total burden of electricity duty is expected to be about Rs. 30 crores a year, and this Green Cess and some changes in freight, etc., which were announced in the Railway Budget would mean about Rs. 15 crores a year.

Chetan Thakkar: On the cane acreages, are we actually seeing any shift out of cane. As cane arrears has become an annual issue with dues reaching up to Rs. 21,000 crores this year? Is cane profitability still that good that farmer would want to continue in cane and no shifts are actually happening?

Ajit Shriram: Actually the issue is that cane is a very hardy crop. Cane can easily withstand flood or drought or hail, or storm or anything of that sort, and as you have seen in the very recent past, where there have been untimely rains in March, a lot of crop damage has taken place in either mustard or in wheat, etc. So farmers are actually inclined towards cane in spite of the cane arrears.

Chetan Thakkar: In terms of the Government's thought process in UP in particular, what is the sense, that they will keep holding on to the current minimum price that they announce as SAP, till such time that the cycle reverses for sugar and then they do the decontrol? Or there is no clarity as such at this point in time and as the year goes by, they would decide what to do?

Ajit Shriram: There is no clarity at this point, for the next year. Some clarity for 2014-15, as it has been discussed.

Moderator: We have the next question from the line of Chintan Seth from SKS Capital and Research. Please go ahead.

Chintan Seth: You did mention about the new urea policy impacting the profitability, can you just explain a bit on it further?

Ajay Shriram: I think the new urea policy has not yet come. We don't know what exactly the details are. We have also been reading that they have made some proposals, it is supposed to go up to the Cabinet Committee of Economic Affairs. We are not sure what it is, so we don't know what it is likely to be.

Chintan Seth: What is the proposal by the industry body?

Ajay Shriram: The industry body has made the proposal that like one for P&K, for urea too one should have the NBS scheme, Nutrient Based Scheme. The only thing is that urea is very heterogeneous, there are some old plants, some new plants, naphtha based, and gas based so one has to build different groups of plants based on what their vintages and what their feedstock is, and then decide on having a policy for each of them because ultimately once everyone converts to gas, today there are three plants that are still running on naphtha if they convert to gas, the cost of production in India will be lower even for old plants compared to imported urea. So it is most logical to ensure that one gives a sustainable position for all domestic urea plants. Today only three run on naphtha, the rest are all on gas anyway. Our proposal is that you please make sure the policy is viable for each of the segments of the urea industry considering the feedstock, the vintage, the health, and the size. That is the industry perspective.

Moderator: The next question is from the line of Apoorva Kumar from Jefferies. Please go ahead.

Apoorva Kumar: What do you think will be the impact of GST on the business segments where you operate?

Ajay Shriram: Well, I will put it this way, I think GST principally is a very positive direction, which will positively impact industry across the board. It is going to be a single point tax at the consumption point, so the entire business process between states, moving from North to South, regarding warehousing for looking at state taxes, etc., that will all get simplified very dramatically. Our feeling which we did a study in CII was that it will positively impact GDP of the country by about 1.5-2% on an ongoing basis once it is implemented fully over the next two to three years. Today, we sell material from North India to Central India or South India it can take 6 to 7 days because of the railway checkpoint at each state border, that will all go, so it is going to cut down the travel time, and it will cut down inventory. It should definitely have a positive impact across the board on industry.

Apoorva Kumar: Anything specific for the business segments for DCM?

J.K. Jain: For us the issue is that a couple of our businesses do not have any tax right now, which is fertilizer and seeds particularly, and sugar also is exempted from VAT, so what is the tax treatment under GST which is decided for these three products will affect our cash flow position. We don't expect any effect on the profitability, but it may involve working capital going up, if these three products are also subjected to tax.

Moderator: The next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: What is the growth that you are expecting in the Value Added segment of the Farm Solutions business this year?

J.K. Jain: On a medium term we are looking for 15-20% growth year-on-year but this business being heavily dependent on weather the actual growth in a particular year will depend on how weather unfolds.

Rohan Gupta: Bulk fertilizers, had good margins last year. What are your targets for this year, will you grow this business more?

J.K. Jain: We have contracted some more quantities compared to last year.

Rohan Gupta: Okay, both in DAP and MOP?

J.K. Jain: Both, DAP and MOP.

Rohan Gupta: What rate we have contracted DAP now?

J.K. Jain: I don't think the purchase rate matters here because as we have said this is price is a pass through kind of thing, which is margin that we earn, which is about 2%.

Ajay Shriram: For MOP and DAP, major buyers are companies like IPL, so once they buy, and because they buy in large quantities from all over the world, they really set the price. So based on that price we also buy.

Rohan Gupta: Sir, the higher contracts for Bulk this year, are they driven by lower inventory the channel or better margins last year?

Ajay Shriram: The stocks are a little lower, but I think because we are solution provider to the farmer, so we want to provide all the inputs required by the farmer for improving their productivity and improving their crop, so bulk fertilizers is part of it. With our growth plans of Shriram Farm Solutions, bulk fertilizers also move along with the overall plan of growth for this business and as we just mentioned we do expect a 15-20% growth in the farm solutions business going forward.

Rohan Gupta: Sir, do you think better margins can drive lot of people to start trading which may result in inventory overhang in the bulk fertilizers?

Ajay Shriram: You cannot say, because if the monsoon is good, then the demand will be good. So it will pick up across the board, but I think that is something which is inevitable in all traded products which are open to be imported by anyone and I think then it depends a lot on the marketing strength of the organization, it depends on the goodwill of the organization, credibility of the organization, and the range of products an organization offers to the trader. I think it is an overall package.

J.K. Jain: Just to add, I think even after this increase, our overall volumes are very small compared to the total requirement and given our brand and network I don't think sale is an issue for that much quantity.

Rohan Gupta: When you do trading, what absolute per ton, you look for from the contract or MOP maybe?

Ajay Shriram: That depends on time to time. It depends on what is the market situation, one cannot have a fixed margin on that, because it depends on the market.

Rohan Gupta: But do we also factor the interest cost?

Ajay Shriram: Absolutely.

Rohan Gupta: So is that, I mean, if you can come out with a number like 500 to 600 rupees per ton, is it a good margin on which you will start working out.

J.K. Jain: What we said is about 1 to 2% margin that is what we had given.

Rohan Gupta: Sir, last year we got Rs 500 additional subsidy on capital subsidy. But that was only applicable for one year, so has the government extended that further, will it be applicable for this year also?

Ajay Shriram: It is not one year, who said it is one year, it is ongoing.

J.K. Jain: Revision in the price which is for all time to come.

Ajay Shriram: What the government did was, they gave Rs 350 increase, the conversion cost to everyone, and they gave additionally Rs 150 to old plants, because their plants are old, so their maintenance costs are higher.

Rohan Gupta: But if I remember rightly, that was only for one year and they said that once the new policy will be formulated, then we will review this?

Ajay Shriram: Our understanding is it is ongoing and the new policy when it comes will incorporate this in any case.

Moderator: The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Thank you for the follow-up, on BT cotton, when the MRP is Rs. 930 per packet and our realization is Rs. 750 per packet, now when we are booking revenues on the P&L do we book it at Rs 930 per packet or Rs 750 per packet?

J.K. Jain: Rs. 750 per packet

Dheeresh Pathak: Okay, all right, and apart from corn and cotton, can you just give the other seeds where we are active in the bioseed business.

J.K. Jain: Those are relatively very small. We do paddy and we do vegetable, and very small quantity of bajra, but I think combined put together they contribute not more than 15% of the total business, so they are still relatively small in our context.

Dheeresh Pathak: South, this year, was an incremental 10 lac packets versus last year, can you give the main markets where we saw this incremental delta?

J.K. Jain: South, we sold 19 lakh packets, compared to 8 lakh in the kharif 13, and I would say 30 to 40% comes from Karnataka for us and the balance is from Andhra and Maharashtra.

Dheeresh Pathak: Earlier, in some question I think you had said that even Naphtha, urea plants converted to running at imported RLNG gas, would be better cost than imported urea.

J.K. Jain: Correct.

Dheeresh Pathak: Sort of, you know, not making intuitive sense, because if some country has a natural low cost gas age, and they make urea, would it not be cheaper for them to make urea and then for us to import rather than importing gas and then making urea?

Ajay Shriram: See, what happen is that the international trade of urea is about 20-25 million tons a year. Now people are moving on what is the supply demand situation and not necessarily what is the cost of production. The reality is that if you look at India where today the price of urea is about \$275-280 plus another \$70 for bagging, transport, etc., so 280 plus 70, it is about \$350. At this price and today's gas price which today has come down to about \$12-&\$13 from that \$17 or \$18 which were there earlier. At this price manufacturing in India is still lower cost than if you were to import the urea, so once these 3 naphtha plants also convert to gas. Today, naphtha prices have also come down substantially, but they are still much higher than the gas based plants even old plants like ours or other, so I think once everyone converts to gas, the cost of production will be lower than the imported price.

Dheeresh Pathak: But, then once we put up that capacity then we have to sweat it irrespective of whether the RLNG prices keep going up, so we are looking at current lower prices of RLNG?

Ajay Shriram: See what is also expected in India is that the gas availability will go up over the next five, seven years and today pipelines are available to all plants except these three the SPIC, Mangalore Chemicals and Madras Fertilizers so I think once we get it also then they will also be able to get gas from domestic sources and the pricing of that is as per the petroleum ministry and not really a link to the international price directly. The landed cost of gas from outside, they have their own formula which was suggested earlier by the Rangarajan Committee which the government is following.

Moderator: The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: For Caustic and PVC what is the growth that we are expecting in volume terms and also how is the pricing looking right now?

J.K. Jain: Yes as far as volume is concerned as we mentioned our additional capacities will come into operation only post September 16 therefore there is no capacity increase happening in 2015, 2016 for us, both for Chlor-Alkali and PVC. There may be 1-2% growth depending upon the operating efficiency there is no capacity increase which is happening. Now prices as we mentioned have gone up from the low which it had touched in December. they continue to remain little firm right now, but they still substantially lower than same period last year.

Baidik Sarkar: How is the outlook looking like, is it fair to assume for the next at least to H1 FY 16 realizations will be tepid. Is it fair to assume that?

J.K. Jain: It is difficult for us to give an outlook because for both these products the prices are dependent on international prices, so it will largely depend on what happens to crude then what happens to global PVC and caustic prices.

Baidik Sarkar: So, what is that caustic realization today roughly Rs. 30,000 per tonne?

J.K. Jain: XWR for which we measure in terms of ECU which is the caustic and sodium combined that is about Rs 24,500 /MT for us, which is the net XWR for us that is ex-worth realization to us.

Baidik Sarkar: What was it is number same time last year?

J.K. Jain: It was about Rs. 26000-27000 /MT.

Baidik Sarkar: So, post CAPEX what are PVC volumes, what will be the installed capacity of our PVC?

J.K. Jain: We are not taking expansion in PVC, we are only talking about expansion in Chlor-Alkali, which is going up by 500 tonne per day.

Baidik Sarkar: What it would be the incremental capacity as a percentage?

J.K. Jain: It is about 65% of our present capacity.

Moderator: Thank you. The next question is from the line Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir, once the Chlor Alkali capacity commissions in second half of FY 17, by when can we expect the full ramp up to this capacity.

Ajay Shriram: In about three to four weeks. Once you commissioned the plant. It should move fast because you are putting up a captive power plant also. It is captive power plant as well as the electrolysis and the full chemical process.

Moderator: Thank you. The next question is from the line of Chetan Thakkar from Emkay Global. Please go ahead.

Chetan Thakkar: I just wanted to get a sense on cogen capacity, is it coming up at the ensuing sugar season or the next sugar season?

Ajay Shriram: Next, sugar season.

Chetan Thakkar: What is the average realization that you are getting on power from sugar?

J.K. Jain: It is about Rs. 5.10-5.20 /unit.

Chetan Thakkar: And there is no increase that is there in terms of the regular increases that are there?

J.K. Jain: It has been a recent increase of 0.50 paisa this was from January '15 and I am giving you the price post that increase.

Moderator: Thank you. We have the follow up question from the line of Rohan Gupta form Emkay Global. Please go ahead.

Rohan Gupta: Sir, Corn seed you said last year the industry was almost 13 to 14% down, while we were down by 20% because we lost in government order. Was it a one-off event or we have lost on those government orders on a regular basis?

J.K. Jain: It is a little uncertain. We will see what government order come up this year, we will participate so depending up on how much we get it can affect this year's volume.

Ajay Shriram: Last year, the total government buying was lower of corn.

Rohan Gupta: So this year we are expecting that acreages in corn should be higher from the last year.

J.K. Jain: No, we are saying if the weather remains what has been predicted then there should not be any significant change compared to last year.

Rohan Gupta: In case if it is the normal monsoon then there should be ramp up in the corn seed?

J.K. Jain: Then it should go up.

Rohan Gupta: So it will be back to the last year basis?

J.K. Jain: That is difficult to say, but it will go up.

Ajay Shriram: See it depends on the monsoon, it depends on the prices, and on the market. It depends on the so many factors.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to the management for their closing comments. Over to you sir.

Ajay Shriram: Thank you. Ladies and gentlemen thank you for participating in our Q4 and Financial Year '15 earnings conference call. We have achieved relatively stable performance despite of the challenges faced by several of our businesses in Financial Year 2015. Our strong balance sheet, reasonable cash flows, continuously improving cost structures and planned growth in businesses of Chloro-Vinyl, Bioseed, Farm Solution, and Fenesta positions us strongly to ensure sustainable growth in the medium-to long-term. Our CAPEX programs will start contributing to performance from the second half of the next financial year. Thank you once again for participating in DCM Shriram's results discussion. Thank you and Good bye.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of DCM Shriram Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.