



DCM Shriram Ltd.

Transcript - Q1 FY17 Earnings Conference Call

August 12, 2016

Moderator: Ladies and gentlemen, good day and welcome to DCM Shriram Limited Q1 FY 17 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 for an operator by pressing '*' followed by '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar. Thank you and over to you, Mr. Rangnekar.

Siddharth Rangnekar: Good evening and thank you for joining us on DCM Shriram Limited's Q1 FY 17 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 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 circulated to you earlier.

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's operation for the quarter ended June 30th, 2016 and the opportunities going forward. Over to you, sir.

Ajay Shriram: Thank you, Siddharth. Good evening, ladies and gentlemen and a very warm welcome to DCM Shriram Limited's earnings conference call for the quarter and year ended June 30th, 2016.

I will take this opportunity to share with you our perspective on performance and plans going forward, following which Vikram will take you through the financial highlights of the Company.

During the first quarter, the company reported a healthy performance. All businesses except SFS and Bioseed recorded better financial results.

SFS and Bioseed were adversely affected due to erratic weather and financial stress in the farming community.

Let me take you through the business wise developments.

Chloro-Vinyl:

This sector experienced stable business environment with demand growth linked to GDP, stable international product prices and input prices. Off late the domestic prices of Chlor-Alkali has seen some downward pressure. We expect it to be a short term phenomenon. The fuel prices have also seen marginal increase. We continue to focus on strengthening our competitiveness and are investing in building scale and a technological up gradation. We have completed the Chlor-Alkali capacity expansion at Bharuch in Gujarat. The capacity expansion of the power plant, will be completed in Sep/Oct this year post which the expanded Chlor-Alkali capacity can be operated at the full capacity.

The board has also approved the capacity expansion project for the Chemicals business at Kota in Rajasthan at an investment of Rs. 97 crore, which is expected to come on stream by Q3 FY 2018.

Sugar:

As you are aware the operating environment in this sector has improved over the last one year. This has been a consequence of supportive policies adopted by Central & State Govt. Sugar prices have reached the level which is required to support the present cost structure of the industry. The key challenge is to maintain this parity going forward. Rational cane price policy is a must for this purpose. The current Sugar season is expected to end with healthy carry forward stocks. As a result, even with lower sugar production next year, the country will have adequate sugar availability. We are focusing on increasing capacity utilization in our Sugar factory and value addition to our by-products Bagasse and Molasses. We expect to commission the additional 16.5 MW co-gen capacity before the start of the next crushing season.

Bioseeds and Farm Solutions Business:

These businesses are facing adverse business environment due to erratic weather, very tight financial conditions in the farming sector and regulatory uncertainty. The adverse weather conditions had impacted the international operations also. We are focusing on continuously expanding

and upgrading our product portfolio, intensifying our farmer engagement and enhancing demand for our products.

Fertilizers:

During the current year, we experienced some progress on long pending issues regarding subsidy payments. The payment against notified prices has been fully updated. Notification has been issued for revised primary and secondary freights. We hope the government will recognize the reasonable cost to this industry and ensure timely payment of subsidy dues going forward. We continue to focus on improving our energy efficiencies.

Fenesta:

We have experienced some revival in the project sector with increase in order bookings over the last 2-3 quarters. We expect the execution also to pick-up going forward. The retail sector continues to register steady growth. We are focusing on strengthening our customer engagement, execution capacity and a geographical reach. We expect this business to register healthy growth over the medium-term.

In conclusion, with our Company's reasonable debt level, stable to positive business environment and completion of the projects in the second-half of 2017, we expect a satisfactory performance going forward.

I will now request Vikram to take you through the financial highlights.

Vikram Shriram

Thank you. Good evening, ladies and gentlemen. I will now summarize the financial performance of the Company.

Q1 FY 17 revenues stood at Rs. 1,442 crore compared to Rs. 1,789 crore last year. This was primarily due to suspension of DAP and MOP trading that was down by Rs. 238 crore versus last year.

Q1 PBDIT was up by 29% year-on-year to Rs. 250 crore primarily on account of higher earnings in the Chloro-Vinyl and Sugar businesses. Higher operating profits and lower finance cost led to a 34% YoY increase in Q1 FY 17 PAT to Rs. 167 crore.

Let me now take you through our business wise financials:

The Chloro-Vinyl Business' Q1 revenue stood marginally higher driven by realizations and volumes. PBDIT stood higher by 26% YoY mainly due to higher margins led by decline in key raw material prices, better efficiencies and firm product prices. Chemicals prices were up by 4% YoY and PVC prices were up marginally. Compared to Q4 FY 16, PVC prices were up by

8% and Chemicals were down by 3%. Chemicals realizations have further softened in July 2016.

Segments' capital employed stood higher on account of ongoing expansion and technology up gradation in the Chemicals business. The expansion project will start adding to top-line and earnings from the third quarter onwards.

Sugar Business:

Sugar Business' Q1 FY 17 sales volume stood lower at 7.3 lakh quintals compared to 10.7 lakh quintals last year. Revenues during the quarter was down by 15% YoY to Rs. 260 crore. Higher realizations at Rs. 3,338 per quintal compared to Rs. 2,549 per quintal last year and lower cost of production led to the business reporting profits in first quarter compared to losses last year.

Earnings during the quarter were affected by about Rs. 4 crore due to increase in quota on Molasses to 25% compared to earlier 15%. The business' capital employed on June 30th, 2016 stood at Rs. 955 crore up 56% from last year.

The increase was results of increase in closing stock of Sugar to 15.8 lakh quintals compared to 9.3 lakh quintals, higher Sugar valuation per quintal and low cane dues.

Shriram Farm Solutions first quarter of financial year 2017 revenues declined to Rs. 287 crore compared to Rs. 610 crore in Q1 FY 16, primarily due to suspension of DAP, MOP trading.

Revenues of value added segment also declined by 20% YoY led by a lower volumes of BT Cotton seeds and capping of BT Cotton selling prices under the Seed Price Control order of the Central Government.

PBDIT of the business declined 56% to Rs. 11 crore due to lower volumes and margins. Capital employed stood at Rs. 574 crore versus Rs. 590 crore last year.

The Bioseed Business Q1 FY 17 revenue declined by 22% YoY to Rs. 284 crore led by lower volumes of BT Cotton seeds during the quarter and capping of BT Cotton selling price. Steep decline in Cotton acreage in key regions especially North India led to fall in the Company's BT Cotton volumes to about 30 lakh packets down from 36 lakh packets in first quarter last year.

Lower volumes in BT Cotton led to decline in PBDIT of India operations by 25% to Rs. 69 crore. In the international businesses, while volumes in

Philippines improved, sales in Vietnam and Indonesia were affected due to delay in the season.

In the Fertilizers Business, Q1 FY 16 production stood higher by 23% YoY that led to higher sales volume and revenue during the quarter, this was because last year in Q1 the business undertook a maintenance shutdown that affected production and efficiency.

Higher volume and better efficiencies led to positive earnings during the quarter compared to a loss last year. There was one-time positive impact to the extent of Rs. 8.7 crore on account of FICC arrears.

Subsidy outstanding also reduced to Rs. 191 crore compared to Rs. 288 crore last year and Rs. 451 crore as on 31st March 2016. However, it tends to build up in the second-half of the year.

The other segment includes Fenesta, Cement and Hariyali businesses. The Cement business' revenue increased to Rs. 54 crore compared to Rs. 33 crore in Q1 FY 16, this was led by an 8% YoY increase in volumes and a 15% year-on-year increase in prices.

Margins improved with better product prices along with lower cost of production due to lower input cost and better efficiencies. Fenesta business revenues and PBDIT stood higher by 23% and 15% respectively due to a 25% YoY increase in volumes during the quarter. The business' order book increased by 15% YoY to Rs. 82 crore during the quarter led by a 32% increase in the 'Retail' business' order booking during the quarter.

The Company's net debt as on June 30th, 2016 stood at Rs. 1,071 crore as compared to Rs. 690 crore as on June 30th, 2015. This was primarily due to the ongoing expansion projects in Chemicals and Sugar businesses.

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

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Abhijeet Dey from BNP Paribas. Please proceed.

Abhijeet Dey: Sir, in terms of the Sugar inventory which you are carrying it is close to about 1.6 million tonnes as per your presentation.

J.K. Jain: Yes, about 15 lakh quintal.

Abhijeet Dey: So we will be disposing that in this quarter itself entirely?

J.K. Jain: No, it will carry on till October and then some quantity in November also.

- Abhijeet Dey:** Okay. So what is the expectation on sugarcane acreage and production in UP in current season?
- Ajit Shriram:** See, this year we anticipate the production to be about 75 lakh quintals, i.e. 7.5 million tonnes of Sugar in UP.
- Abhijeet Dey:** Versus how much it was in last season?
- Ajit Shriram:** Last season I think it was 7.1.
- Abhijeet Dey:** Okay. So you are expecting basically about the same level
- Ajit Shriram:** Yes. Actually rains have been pretty good, so we do expect a higher yield of cane.
- Abhijeet Dey:** Okay. And sir, in terms of you know the monsoons have picked up after the month of June while the Cotton acreage is still lower Y-o-Y but it has picked up in the last 3-4 weeks so, while your Cotton seed business did not do well in Q1. But do you think things will change for the better in Q2?
- J.K. Jain:** Q2 is not a major Cotton seed sales quarter, we are not expecting any significant volumes in the Q2 as it is too late for Cotton sowing essentially.
- Abhijeet Dey:** When is the co-gen plant is expected to start?
- Ajit Shriram:** We plan to commission the co-gen plant by end of October 2016.
- Abhijeet Dey:** Okay. And sir, is there any PPA with the state grid on that?
- Ajit Shriram:** That is in progress. We are in talks with the government for the expanded capacity.
- Moderator:** The next question is from the line of Rohan Gupta from Emkay Global. Please proceed.
- Rohan Gupta:** Sir, we have seen increased realization for your PVC business where prices touched almost Rs. 68,000 which is as against Rs. 63,000 in the previous quarter. What led to this increase in PVC prices and are the prices going to sustain at these levels?
- Ajit Shriram:** Well, PVC prices went up and international prices were also stable and I think you know it is matter of supply and demand that the PVC prices went up a little. We expect prices to be stable.
- Rohan Gupta:** Okay. So, with this kind of prices for PVC and Caustic Soda also so you have roughly done Rs. 120 crore EBIT from Chemical segment itself which is actually coming from the cost efficiency driven. So, do you see that the

current run rate of Rs. 120 crore though it was slightly higher side because I think higher volume done in the Chlor-Alkali but what is the run rate you think that company will be able to continue?

J.K. Jain: It is difficult to give a run rate in commodities Rohan, I think, what we have said is that we are cost competitive and the prices are globally linked. But like CMD said in his speech that the prices have seen some reaction and the cost have also started picking up a little bit particularly coal cost, etc. So the margins may not be the same as they were in Q1.

Rohan Gupta: Okay. And sir, our CAPEX commissioning in Q3 or end of Q2 so is it moving as per expectations and when can we start expecting the benefit from the CAPEX which we are doing in Caustic Soda?

Ajay Shriram: See in Caustic Soda it is moving absolutely as per the budget approval. As far as the investment approval from the Board is concerned, we broke up the project in two parts, we said one is the Chlor-Alkali plant and the other is the power plant. When we set up this operation in Gujarat we had 18 megawatts of DG Set based on furnace oil which were commissioned in 1996-97 in the early stages. What we did was when the Caustic Soda plant was ready we decommissioned the DG Sets based on furnace oil and got additional production which is happening right now. But it is not on full power availability, once we the fully expanded Caustic Chlorine capacity so, we expect a new power plant which is part of this expansion to be commissioned by end of September or early October post which we will get the full capacity and go up to about 900 tonnes a day of Caustic Soda Chlorine in Bharuch in Gujarat.

Rohan Gupta: Okay. So, Chlor-Alkali subject to actually increase in power plant capacity, which will commission by end of September so may be by October onwards we may expect Chlor-Alkali plant also to go up to increase utilization.

Ajay Shriram: Yes, that is correct.

Rohan Gupta: Sir, third question was with respect to the fertilizer business in your opening remarks you mentioned that you are seeing some improvement in terms of subsidies coming from the government and government is showing some sort of urgency in paying the subsidies to the companies. Why and how it is driven and do you think that if the subsidy environment continuously improves, will you go back to the trading of DAP complex fertilizer which you have curtailed significantly in the current quarter?

Ajay Shriram: See there are two things as you rightly said, one is the urea business which we are of course continuing with and running that at full capacity. I think the situation in the government has been that international prices of DAP, MOP, urea, all three have come down, which is leading to the subsidy allotted in the budget by the government to carry on a little further

because of the subsidy per ton having come down because of international prices coming down. So we hope that the subsidy outstanding at the end of the year will be better even on the urea account compared to what it was last year. As mentioned earlier, DAP, MOP we are not doing, we find and feel that with the capital tied up, with the fluctuations in margins and with the uncertainty of pricing, it really did not make business sense to continue doing DAP and MOP, so we are not looking at doing this right now. We are of course doing SSP where we have our own plant of about 50,000 tonnes, plus we do trading of almost 400,000 tonnes more, which will continue as part of our basket of providing a wider range of Fertilizers. So, Urea and SSP is what we want to do besides of course value added of NPKs and other growth promoters and all which we do as part of our value added businesses in our Farm Solutions segment.

Rohan Gupta: Okay. Sir, third question is from seed business, I do not know if you have given the volume detail. Sir, can you give the break-up between the north and south market of seed sales?

J.K. Jain: For this year?

Rohan Gupta: Yes, sir, for this year.

J.K. Jain: I think, we will do for this season approximately 32 lakh packets which will be 14 lakh packets in North and 18 lakh packets in Central South.

Rohan Gupta: So, this 32 lakh you could have already done almost, right?

J.K. Jain: I Up till June we had done 30 lakh packets. About 2 lakh packets were sold in July. So 32 lakh packets is the total sales that we will end up with.

Rohan Gupta: And sir, this 32 lakh which is down from almost 39 lakh packets previous year.

J.K. Jain: It was 38 last year.

Rohan Gupta: 38 last year, okay, sorry. So, from 38 to 32 this is in line with the industry loss or we have lost some sort of market share?

J.K. Jain: No, industry also is down at least by people are talking anywhere up to 20% but our sales is definitely down by 16-17% and we are also down by roughly the same number.

Moderator: The next question is from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please proceed.

Ashwin Balasubramaniam: I have a couple of questions. First, is on the Farm Solutions business, so if I compare it with last year sequentially basically the margins

have remained kind of similar but I believe that now that we have discontinued DAP, MOP trading which is low margin business, should not have the margins have inched up so, I mean that was one of the questions and also even in terms of capital employed in the business it is not reduce in same proportion as the revenues have so, just wanted to check on that so, that is my first question. Also the second question is with regard to the Sugar business. So, just wanted to understand the reason for the lower revenues and also on if I look at it on a sequential basis the EBIT is also down, so just wanted to understand reason for that because Sugar prices if I am not wrong have were on an upward trend

J.K. Jain: So on the Farm Solutions, the capital employed hasn't come down proportionately because still there is outstanding of subsidy and outstanding from market corresponding to DAP, MOP which is still to be realized. That should happen probably by this third quarter and then that capital employed should come down.

Now on Sugar in fourth quarter because it is a seasonal business and fourth quarter is the period when you have maximum product therefore it is always most profitable for Sugar business, right. Third quarter only represents the profits which comes from sale of whatever inventory we were carrying on and it takes the charge of cost so the profits are not comparable for fourth quarter and first quarter of any reality element in the business.

Ashwin Balasubramanium: Okay. But if I compare with last year also the revenues have come down so, that is due to low volumes, is it?

J.K. Jain: Absolutely, like we said, last year quantity was higher, this year quantity is lower.

Ashwin Balasubramanium: So what the volume de-growth have been like from last year?

J.K. Jain: See like there are two parts – one is if you see season as you whole in the season we produced about 6% more Sugar than last year. However, quarter-to-quarter sale of that keeps vary depending upon market demand. Last year there was significant demand from institutional sector which is people like, Coke, Pepsi, etc., in the first quarter; this year that demand was not there so all this sale has gone in the market and the quantity is lower but hopefully in the second quarter and third quarter it will come down.

Ashwin Balasubramanium: Okay. And the margins in Farm Solutions because I mean DAP trading I think will be a lower margin so, your value added products should gone up in proportion.

- J.K. Jain:** So, as we said the overall volume of value-added products has come down, there was positive impact because of DAP, MOP got compensated because of the lower volumes of value-added products.
- Moderator:** The next question is from the line of Shubhankar Ojha from SKS Capital. Please proceed.
- Shubhankar Ojha:** The margins for the Chemicals business for the quarter was significantly higher so, what is the sustainable margin for this business?
- J.K. Jain:** If you are talking about an average kind of margin, you can say Chemical will have an average margin of 30-35%. But I think, it is difficult to achieve that number in any one year as the margin keeps varying because these are basic commodities the prices do fluctuate quite a bit. But an average level it will be about 30% or so.
- Shubhankar Ojha:** And secondly sir, what is the total subsidy pending for the Fertilizer business total amount?
- J.K. Jain:** Total amount as on 30th June was about Rs. 400 crore.
- Shubhankar Ojha:** And can you please repeat the net debt number at the end of 30th June?
- J.K. Jain:** About Rs. 1,070 crore.
- Moderator:** Thank you. The next question is from the line of Aman Sonthalia from AK Traders. Please proceed.
- Aman Sonthalia:** Sir, recently I have seen the report of ISMA, they are mentioning that in the coming season the production will be around 232 lakh tonnes. But if I go by the interview of Mr. Sanjeev Babar, the Corporate Head of Maharashtra I have also talked with the Ugar people in Karnataka, they are saying that in Maharashtra the production will be around 50 lakh tonnes and in Karnataka it will be less by 10 lakh tonnes. So all in all, there will be a production loss of around 44 lakh tonnes in these two state only and thereafter, in Tamil Nadu the production is not increasing because of low sugarcane price. In Andhra and Telangana because of drought there will be some less production. Same case is with Gujarat and the only silver lining is Uttar Pradesh where the production I think will be increased by around 10%. So last year the production was around 250 and if I deduct all this figures it comes to around 205 to 210. So, how this 232 lakh tonnes figure has come sir?
- Ajit Shriram:** See basically I think the estimates of West UP are slightly more pessimistic at this point of time and if we see the rainfall, the planting and overall the yields, we do expect the production to be higher. Towards the end of August early September, ISMA will do a satellite mapping and post that we

will have a much more accurate estimate of the Sugarcane area. So in fact the figure of 23.2 million tonnes of production still very much holds.

Aman Sonthalia: But sir, because in Marathwada and in the Solapur areas virtually there is no cane. So, if the rainfall is even better than I do not think that the production will increase to it will increase from 50 lakh tonnes to 55 lakh tonnes but otherwise the figure is quite different, there is a huge difference between their corporative head figure and the ISMA figure that is what I mean to say.

Ajit Shriram: I think as I mentioned earlier, once we have the satellite mapping images we will have a much clearer picture. I mean they are also people who are talking about 55 -60 lakh tonnes in Maharashtra.

J.K. Jain: And no reduction in Karnataka. Karnataka should be able to achieve the same production as last year.

Aman Sonthalia: But I talked with Ugar people they are telling that it will be less by 10 lakh tonnes.

J.K. Jain: That is what Ajit Ji is saying different people are giving different numbers right now. ISMA's number was based out on the satellite mapping that they have done two months ago which is more scientific. The government has also come out with the same number based on their cane data. So, one would know more an authentic number after the second round of satellite mapping which happens in a month or so.

Aman Sonthalia: Okay. Second thing sir, regarding the ISMA figure of closing stock as on 30th September, they were mentioning it will be around 70 lakh tonnes. But if suppose I have taken the balance sheet of Balrampur Chini they were holding around 72% of their production of this financial year. Since, they are very financially sound company and if I take that figure as total that every company is maintaining the same inventory of their production it comes to around 180 lakh tonnes. And if I take 22 lakh tonnes consumption per month then it comes around 132 lakh tonnes consumption for the next six months from April to September. So, if I deduct this figure from that figure it comes to around 47 - 48 lakh tonnes sir, so I think there is also some confusion regarding that closing stock as on 30th September.

J.K. Jain: No, I do not think there is confusion. One is that you cannot apply Balrampur's inventory benchmark to everybody. See second, you need to look at the total numbers, we were carrying over 9.5 million ton on 30th September last year. We have produced as per you also over 25 million ton so, makes it 34, right? We have exported about 1.5 million ton and our yearly consumption even at the highest estimate cannot be more than 25 million ton. So therefore, what is the inventory you are left with? Individual company's number could vary depending upon their production and sales.

- Moderator:** Thank you. Our next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please proceed.
- Tejas Sheth:** The higher realizations in the chemical segment were mainly driven by higher demand or there was some supply glut at the global level?
- J.K. Jain:** Globally, also price have firmed up somewhat, plus there were some supply disruption in some plants during that particular period so the prices picked up significantly. And as CMD mentioned after that there has been some correction in the second quarter.
- Tejas Sheth:** We have been always guiding that average EBITDA margin should be around 33% but with the new capacity coming up can this average go up at the base level?
- J.K. Jain:** Average EBITDA margin?
- Tejas Sheth:** Yes.
- J.K. Jain:** I don't think EBITDA margins will move up significantly. It will remain in that range essentially.
- Ajay Shriram:** I think I will just add. What happens is when suddenly you get another 300-400 tonnes a day of product coming into the market, it has an effect on the prices. So for some months they are bound to be a little softer because there is more availability. But then the market also adjusts by moving out a little more. You might change your market strategy, geographical area, etc., then it stabilizes. So like for instance, we have also expanded capacity and we are getting additional production and from end of September or early October we will get more, we will get almost double the capacity of our Gujarat unit. There would be some impact but we expect in couple of quarters, it will stabilize.
- Tejas Sheth:** Sir on the sugar side, our realization for this quarter has been I think lower than the industry average at around Rs. 33 /kg. I think everybody in the industry is talking about Rs. 34.5 or Rs. 35/kg?
- J.K. Jain:** As I said it depends on the sales strategy of a company. We had done some long term sales contract last year, sales against which is happening in this particular quarter. So if we exclude that long-term sales contract then even our price is also in the range of Rs. 34.5 to Rs. 34.6. The average is coming down because of sale against that long-term sales contract. But which is almost over now so it should improve going forward.
- Tejas Sheth:** So from Q2 onwards we should see the average?
- J.K. Jain:** In line with the industry trend as such.

- Tejas Sheth:** And last year the volume of sales in sugar was 28.3 million tonnes. So how much this year we are expecting for the whole year?
- J.K. Jain:** For the full financial year it is difficult to say right now but last season we produced about 32 lakh quintal vis-à-vis 29 lakh quintal for the previous season so there was increase in the overall production last season by 5-6%. So that's the increase which we experienced in production last season so that converts into sales at least this year.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please proceed.
- Sachin Kasera:** My question was on the CAPEX. Of the ongoing CAPEX how much amount is pending in terms of being spent?
- J.K. Jain:** Sachin out of Rs 700 crore that we have committed we have already incurred about Rs 520-530 crore till 30th June.
- Moderator:** Thank you. Our next question is from the line of Rohan Gupta from Emkay Global. Please proceed.
- Rohan Gupta:** I just left on the last question where you gave the breakup of 32 lakh seeds. 14 lakh you mentioned in North and 18 lakh in South and West. Can you give further breakup, how it was last year, this 14 lakh in North?
- J.K. Jain:** The North was about 19 lakh and Central/South was about 19 lakhs again.
- Rohan Gupta:** So maximum loss actually we have seen only in North.
- J.K. Jain:** Rohan even for the market the maximum loss has been in Punjab where people are saying it went down by 25-30% so I think our reduction is representing whatever has happened in the market.
- Rohan Gupta:** And is basically the Punjab problem due to the white fly issue that was witnessed last year?
- J.K. Jain:** Punjab area significantly came down, even Haryana came down but not to that extent. Rajasthan was okay.
- Rohan Gupta:** So sir, now we see that cotton acreages, whatever loss would have happened has happened now this year, with the cotton prices outlook improving, what is your target for next year in terms of seed sale business, sir?
- J.K. Jain:** So, I do not think we have fixed up any target for next year right now, but I think overall expectation is that next year there should be some revival in cotton acreage, which should see increase in volumes going forward.

Rohan Gupta: And sir, can you also give some light on how the non-cotton business have done this quarter?

J.K. Jain: So, corn has done better, corn has seen an increase of anywhere between 15-20% in volumes, but paddy has also been down.

Rohan Gupta: Sir next question on this fertilizer business, you have shown a significant improvement in EBIT from fertilizer of almost Rs. 17 crore, so why this fertilizer EBIT was higher and is it driven by any one-time or it is a sustainable EBIT?

J.K. Jain: As we explained in the opening remarks, there is a onetime gain of about Rs. 8.5 crore and also last year first quarter had some shut down period as well.

Rohan Gupta: So this Rs. 8 crore is included in earnings. So it is related to what sir?

J.K. Jain: This was from areas arrears, which were notified by FICC in this particular quarter for an earlier year.

Rohan Gupta: Sir just last question from my side, and that is more on the macro picture. Sir, recently we have seen that Tata Chemicals selling its business to Yara and, well, most of the players in the domestic market are not so optimistic about the urea business because of the constant delays in the government subsidies and all. While there is a global player who wants to enter India business and have given a reasonable valuation also to the company in buying that business. So sir, one thing I want to understand that how you see the market changing with the global player entering into Indian market directly? That is one. Second, with most of the domestic players frustrated with the government subsidy regime and all, can there be more such deals?

Ajay Shriram: Well, if you look at it this way that considering that there are quite a number of urea plants in the country today and all of them really came in the early 90s and each of them were with over 1 million tonnes capacity each, I think it is a business-to-business view. What Tata's are saying is they want to get out of the bulk fertilizer and get into more value added products and different baskets of products, they have taken that view. But the other side of it is, if you see Chambal Fertilizers is moving ahead with a new plant, they are actually working for putting up a new 1 million ton plant. The government is also working on Ramagundam and a couple of other Talcher and other plants coming up now. So, I think as a country, urea growth is happening at about 2-3% a year depending of course on the monsoon, so it moves a little up and down. And I think India has taken a policy view to have some level of self-sustaining manufacturing base within the country, today there are about 23 million tonnes, we expect that in the next, let's say, 4-5 years we have another few plants which will go up by another 2-3.5 million tonnes. So we will have roughly 25 million tonnes of

our own capacity in totality. But the demand is also going up. So I think this is a game or this is a policy which each company has to take as their own direction of what they believe in the business. And urea is going to be always required by the country, that is a given. I think with a large agriculture economy like us, it is a very important fertilizer and that is something which is going to be required all the time. So, I think each company is taking the view on how they want to move have their own strategic direction for the business.

Rohan Gupta: Sir just last question from my side on Fenesta business, sir we have always been focusing more on a Retail segment but in current quarter with higher growth in project sales the revenue contribution from Fenesta is roughly 77% from the retail which has come down to 73%. So, this is the strategy, I mean, you will be driving more revenues from project sale or it has just some order came and that is why the revenue mix changed?

Vikram Shriram: We are growing both, basically the strategy is to grow retail also and grow projects also. So that can vary quarter-to-quarter where there may be some bunching up of project business or something else.

Rohan Gupta: But sir, more or less you said that retail business contributing roughly +70% of the total revenue of Fenesta?

Vikram Shriram: One cannot make any statement in terms of a long-term statement, because it depends, the real-estate sector has been very depressed in the last three years. So retail has dominated the business. Now if the project sector segment picks up, which we are seeing signs in the form of higher order booking, then I think there may be a slight shift in the percentage mix two or three quarters down the line in case developers start doing their construction activities at a faster pace. Right now we have got the orders but then they have to execute which typically happens two to three quarters after the orders.

J.K. Jain: But that does not indicate any shift in focus from retail to project or any such thing, each of these are being followed as an independent vertical, the mix depending upon each business performance can change on quarter-to-quarter basis.

Rohan Gupta: And sir, there is no challenge in terms of builders' lobbies in terms of working capital and collection of the payment?

Vikram Shriram: That is a challenge, that is in fact why in the previous couple of years the builder's business has been pretty low, because of their cash flow problems we are very careful about our receivables and very particular about protecting our cash flows. So we actually cut down on business and got more revenue from retail business. Now if the business cash flows improve

and they start paying and their project activity increases, the project segment will also pickup pace and the overall growth rate will be higher.

J.K. Jain: In fact, our booking, Rohan, is much more than the billing and the billing is lower primarily because real-estate still continues to be cash flow stressed, therefore the execution is lower. So cash flow still continues to be an issue in real-estate, but at least it has started moving compared to earlier period.

Moderator: Thank you. Our next question is from the line of Sachin Kasera from Lucky Investment Managers. Please proceed.

Sachin Kasera: Sir, regarding the Fenesta business, I think it is almost six, seven years since we started the business, as of now it is still at a breakeven level. How much time you think before it starts meaningfully contributing to the performance of the Company?

J.K. Jain: No, it is PBT profit now.

Sachin Kasera: Yes, that is what I meant by breakeven.

Vikram Shriram: So it is PBT positive and this is a business where scale grows, the fixed cost will be covered better and it will continue to increase its EBITDA margins. Every year over the last three years, the EBITDA margins have been improving and we expect to see that happening going into future also.

Sachin Kasera: What would be the current level of EBITDA margins in Fenesta, sir?

J.K. Jain: About 9-10%.

Sachin Kasera: And if you continue to grow at a reasonable pace do you think these margins can improve further in the next two, three years or this is the optimum margins you have now achieved in the business?

J.K. Jain: I sense, Sachin, it will take couple of years because we are registering higher growth. And what happens is for sustaining that higher growth you need to incur fixed expenses in advance. So we do expect it will move to higher margins, but it will take couple of years for you to reach that higher margin.

Vikram Shriram: Actually we are reinvesting our profits through the PL account and advertising, marketing, distribution enhancement etc. So it picks up in the form of fixed cost which goes through the PL account. So ultimately the idea is to maintain the pace of growth and the margins will improve in the long run but at revenue we are trying to accelerate the pace of growth.

- Sachin Kasera:** Secondly sir, I do not know if I missed that, what is the incremental volume we can see from the expanded capacity in the current financial year in the chemicals business?
- J.K. Jain:** See, the total capacity that we are expanding is about 500 tonnes per day Full capacity will be operational for about five to six months this year. So we can work out what will be the incremental volume based on that.
- Sachin Kasera:** And the release mentions that because of this expansion and this one more project we are taking in, there will also be a reduction in terms of the cost of production, will you be able to give some sense to what is the type of cost reduction that can happen because of this expansion?
- J.K. Jain:** No, I did not follow, because of the expansion cost reduction?
- Sachin Kasera:** Yes, because since you are expanding in the same capacity you will be able to realize certain costs which will be covered because of the fixed cost nature of the business. So is there going to be any reduction in terms of the cost of production because of this expansion?
- J.K. Jain:** So margin will improve but, let's say, 1-2% that is all.
- Sachin Kasera:** On the sugar front sir, are we evaluating any investment into distillery, and now that ethanol policy of the government has come and they seem to be quite serious about taking ethanol eventually to 10%?
- Ajay Shriram:** I think as we mentioned that we are looking at value added products from all the bi-products of the sugar industry, and power, we are already implementing a project to increase our cogen power capacity by 16.5 megawatts, which we plan to sell. So looking at all options, we will take a decision at the appropriate time.
- Sachin Kasera:** So as of now there is no thought in terms of putting up a distillery, sir?
- Ajay Shriram:** No, we have not gone to the Board with any proposal as such.
- Sachin Kasera:** And sir, how do you see the debt repayment, now that major part of the CAPEX is over, how do you see the debt repayment, which is close to around Rs. 1,050 crore, in the next three, four quarters?
- J.K. Jain:** No, I think till March we will be in the range of about Rs. 1,200 crore to Rs. 1,400 crore depending upon the subsidy outstanding. Thereafter we still need to firm up our investment plan and the cash flow plan, so we can come back to the community after this.
- Sachin Kasera:** So you are envisaging that the net debt will go up further in the remaining compared to June as 31st March, 2017?

- J.K. Jain:** Yes, because see March we have a seasonality, Sachin, sugar has higher working capital and, as I said, there is uncertainty with respect to subsidy outstanding depending upon that debt will go up to Rs. 1,200 crore to Rs. 1,400 crore.
- Sachin Kasera:** Because I thought our cash flows this year are going to be very-very strong going by any numbers in the Q1, so we will also have a very strong internal cash generation.
- J.K. Jain:** Correct, but as I just mentioned sugar does use a lot of cash in the last quarter, so that needs to be funded as well.
- Moderator:** Thank you. We have the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.
- Tejas Sheth:** Sir, just one clarification, any thought on the forward integration of setting up a distillery?
- Ajay Shriram:** I just mentioned that.
- Tejas Sheth:** Sorry, my line got disconnected actually.
- Ajay Shriram:** No issues. We mentioned in our comments earlier that we are looking at value added businesses in the sugar business on molasses and bagasse, and bagasse we are already expanding our cogen capacity to sell 16.5 megawatts more. And for the distillery, we have also not taken any view, we will do it at the appropriate time, we have not gone with any proposal to the Board.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to the Management for closing comments. Thank you and over to you.
- Ajay Shriram:** Thanks. Ladies and Gentlemen, that you for attending our Q1 FY 17 Earnings Conference Call. The diversified nature of our business portfolio has enabled us to deliver consistent performance over the last couple of years. Our healthy cashflows and strong balance sheet enables us to plan and undertake growth investments going forward. Over the medium-term the company's expanded capacity in the chemicals business and growth in bioseed, farm solutions and Fenesta businesses along with a competitive cost structure will drive growth for the Company. Thank you very much once again. Good bye.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of DCM Shriram Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.