



**DCM Shriram Ltd.**

**Q1 FY18 Earnings Conference Call Transcript**

**August 02, 2017**

**Moderator** Good day, ladies and gentlemen and welcome to the DCM Shriram Limited Q1 FY18 Earnings Conference Call for investors and analysts. 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 the operator by pressing \* then you're your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you, and over to you, sir.

**Siddharth Rangnekar** Good evening and thank you for joining us on DCM Shriram Ltd.'s Q1 FY18 earnings conference call. Today we have with us 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. Vikram Shriram and Mr. Ajit 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 conference call invite sent to you earlier.

I would now like to invite Mr. Vikram Shriram to give us a brief overview on the Company's performance for the quarter ended June 30th, 2017 and his views going forward. Over to you, Sir.

**Vikram Shriram:** Thank you Sidharth. Good evening ladies and gentlemen and a very warm welcome to DCM Shriram Ltd's Q1 FY18 earnings conference call. I will take this opportunity to share with you key developments in our businesses and outlook going forward, following which Ajit will take you through the financial highlights of the Company.

The Company has recorded a satisfactory performance in Q1 FY 2018 driven by increase in volumes. Most of our businesses have performed better than last year. The capacity expansions in Chlor-Alkali and Sugar Co-gen completed last year are operating satisfactorily and have added to the growth of the Company. We are looking forward to the completion of

investments in Distillery, Chlor-Alkali, Chlorine downstream products which will drive growth as well as strengthen these businesses going forward.

Let me now take you through the business wise developments:

### **Chloro-Vinyl**

Chemicals: Completion of the expansion and technology up-gradation project at Bharuch Chemical complex last year and gradual increase in capacity utilization (currently at ~82%) has led to significant volume driven growth for the business. We expect further improvements in capacity utilization over the next few months as the excess Chlorine gets absorbed in the market. The selling prices on ECU basis have improved since Q4 FY17 and are currently stable. International prices of Caustic Soda are reasonably firm.

Input costs especially that of power have gone up over the same period last year as well as sequentially. Our investments in technology and scale has helped in mitigating the impact of input cost push.

The expansion project at Kota unit, where we are expanding liquid as well as flaking capacity is progressing well, and it will be commissioned by June 2018.

To strengthen this business further, it is important to enhance captive chlorine consumption. Accordingly, the board has approved setting up a 60 TPD Aluminium Chloride facility at Bharuch Chemical Complex, which will be operational by June 2018. This will be the first captive chlorine consuming business at the Bharuch complex.

Plastics: The prices of PVC as well as Carbide are stable. Currency appreciation is creating some pressure on domestic prices. Coal costs have stabilised sequentially however Carbon costs continue to rise, putting pressure on margins. We are reviewing steps to further enhance our cost competitiveness to protect our margins.

### **Sugar**

During the current Sugar season, the business has recorded about ~48% increase in Sugar production. The sugar prices have gone up over last year in line with the increase in cane prices. Prices are stable now. Margins have improved since higher cane crush helped reducing cost of production. The planting for next season (i.e. 2017-18) in our area has registered good growth. With reasonable weather conditions, we should be able to achieve satisfactory growth in volumes next year also.

The domestic sugar production in the next season may be marginally higher than demand. This could impact the margins going forward. We expect that due to an expected higher total crush in our mills and the benefit of total integration, our performance should remain satisfactory.

The 150 KLD molasses based Distillery project, to produce ethanol at our Hariawan sugar unit, is progressing as per plan and is expected to be completed by January'18.

We hope the central and state governments to continue with the reasonable policy environment which is healthy for the farmer as well as the industry.

### **Bioseed**

India operations - The performance was stable. There was volume growth across segments. We expect the business to witness satisfactory growth going forward.

International Operations – The performance across all territories has improved in the quarter. This has encouraged us and we are working towards sustaining performance.

### **Shriram Farm Solutions**

The Business has been witnessing challenging times over last couple of years led by adverse climatic conditions and regulatory changes in the operating environment. We are taking efforts to strengthen the business and improve performance by rationalizing the product portfolio, intensifying marketing efforts, including geographic expansion.

### **Fertiliser**

The business operations are stable after the scheduled shutdown in April 2017. The company is evaluating measures to further improve energy efficiencies while working with the Govt. for a more rational policy particularly for fertiliser plants with coal based power. The Subsidy outstanding position has improved in this year versus last year, however it continues to be a matter of concern in absence of consistency in release of subsidy payments.

### **Fenesta**

Fenesta business is registering good growth despite Real estate sector being under pressure. Business is continuously working on enhanced customer engagement and increased market penetration. It is expanding

its market reach, product portfolio and service delivery to sustain growth and maintain leadership position.

### **Cement**

The cement sector has seen pick-up in demand over last two quarters, leading to improvement in prices. We expect that with government's focus on infrastructure including housing, this sector should see positive movements in future.

We are evaluating options for further volume across all the businesses. With good cash generation and healthy balance sheet, we are confident of sustaining our growth momentum.

I would now request Ajit to take you through the financial highlights.

**Ajit Shriram:**

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

Q1 FY 18 revenue stood at Rs 2,052 crores compared to Rs 1,514 crore last year, up 36%. The Q1 PBDIT was up by 37% YoY to Rs 342 crores. The improved performance was on account of higher volumes in Chemicals and Sugar businesses. Finance costs for the quarter were higher, post commissioning of the investment program of Rs 700 crore last year. Higher operating profits led to a 40% YoY increase in Q1 FY 18 PAT to Rs 233 crores.

Gross Debt stood at Rs. 817 crores and Net Debt stood at Rs. 331 crores on June 30, 2017. The long term credit rating of our Company has improved from AA- to AA by ICRA and short term has been reaffirmed at A1+

Let me now take you through our business wise financials.

### **Chloro-Vinyl businesses:**

**Chemicals:** Revenue for the quarter was up by 50% over same period last year led by 42% increase in overall volumes. Capacity utilization during the quarter at Bharuch was 80% vs 77% in Q4 FY17, currently at about 82%. The business has experienced rising costs, particularly coal costs. This has led to reduction in PBIT margins from 37% to 33%, quarter-on-quarter. The coal prices are stable now. The PBIT grew 33% over same period last year, led by higher volumes.

**Plastics:** Revenue for the quarter was 12% up at Rs. 163 crores, the increase was due to higher volumes of PVC as well as Carbide as last year we had a scheduled shutdown. The PBIT went down to Rs. 33.1 crores vs.

Rs. 38.3 crores in Q1 FY 17. The business experienced sharp cost increases in all the raw materials including coal; leading to lower margins.

Chloro-vinyl businesses are energy intensive and have witnessed rising trend in energy prices, impacting margins. Our continuing focus on cost optimisation through modernization and capacity expansion has helped us to maintain reasonable margins.

**Sugar:**

The Q1 FY 18 revenue was 139% up YoY with volumes going up by 116%. PBIT stood at Rs. 108 crore versus Rs. 32 crore last year. Total Sugar production during the Sugar season 2016-17 was at 46.4 lac quintals vs. 31.3 lac quintals for last season. This increase in volumes led to lower conversion costs and thereby better margins.

The increase in cane crushed also contributed to longer season for power plant operations and thus higher power profits. The overall PBIT of the business went up to Rs. 108.1 crores vs. Rs 31.6 crores last year.

**Shriram Farm Solutions:**

Q1 FY 18 revenue declined by 3.5% to Rs. 277 crores. 'Value Added' segment's revenue stood lower by 12% vis-à-vis last year. Sales of Crop care chemicals and Specialty fertilisers were adversely affected in the month of June'17 due to GST uncertainties. The PBIT stood 3% lower at Rs. 10.7 crores due to drop in volumes.

**Bioseed:**

Revenues in Q1 FY18 increased in India at Rs. 274 cr. vs. Rs. 264 cr. last year. International Business also saw increase in revenues at Rs. 33 cr. vs. Rs. 17 cr. last year. The increase is led by volumes.

PBIT for India business improved to Rs. 76.9 crore from Rs. 68.7 crore last year. For International business PBIT improved to Rs. 2.4 crore from a loss of Rs. 8 crores last year.

**Fenesta –**

The Q1 FY 18 revenue was up 27% YoY due to higher volumes. 'Retail' revenue was up 17% and 'Projects revenue' was up 56%. Business earnings improved as a result of higher revenues.

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

- Moderator** Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.
- Sudarshan P.** Sir, my question is around the sugar segment. We normally report the sugar segment as a whole, but if you can give us some clarity with respect to how much revenues and PBIT come from the sugar, distillery and power components?
- J. K. Jain** We do not have distillery as of now, but for this quarter, power revenue was not too large, it was about Rs. ~25-26 crores out of total revenue of Rs. 660 crore.
- Sudarshan P.** And PBIT for this?
- J. K. Jain** PBIT for power was about Rs. ~14-15 crores, so bulk of the PBIT is from sugar operations.
- Sudarshan P.** Sir if I look at the numbers, even if I remove it, it looks like we would have done something close to about Rs. 6.5 as a kind of a spread in terms of EBIT. So I am trying to understand whether we have benefits of lower closing inventory. If that is the case, what is the kind of closing inventory that we have and what would be the valuation of the closing inventory?
- J. K. Jain** On 30<sup>th</sup> June 2017, we had a closing inventory of about ~17 lac quintals and we are carrying it at a cost of about Rs. 3000.
- Sudarshan P.** Compared to last year, we have seen a very big jump in terms of volumes, but if you look at the last year 9 months (i.e. the second, third and fourth quarter), one would also assume that there has been sequential jump in second, third and the fourth quarters (i.e 9M). And, I want to understand the kind of capacities that we have and the kind of volumes that one can expect in sugar this year?
- J. K. Jain** See, there are two parts in sugar. One is the season. So, in the just concluded season, which is 2016-17, we had ~48% jump in our production and that is what is resulting in these increased sales during this quarter and it will result in increased sale in next quarter also. Now for the next season, though it is early to give an estimate of how much increase will happen, but the growth of area under planting has been good. If the yields remain same, then we should expect good growth in sugar production next season also.
- Sudarshan P.** In terms of sales, how much of sales did we do last FY in terms of lac quintals and how much do we expect to do this year?

- J. K. Jain** In the last financial year, we would have done a sale of ~37 lac quintals and this year in the first quarter, we have done a sale of ~15.8 lac quintals and we have a stock of ~17 lac quintals. Therefore, from last season production, we would have done ~32 lac quintals. Post that whatever we sell out of the fresh production would be known by year-end only; but it will be definitely significantly higher than last year.
- Moderator** Thank you. We will move to our next question, which is from the line of Sumant Kumar from Emkay Global. Please go ahead.
- Sumant Kumar** What is the peak sugar production capacity in the season and what is the installed capacity?
- J. K. Jain** We have an installed capacity of 33,000 TCD.
- Sumant Kumar** And the sugar production in quintals?
- J. K. Jain** It depends on the cane availability because the season can range from 160 days to 180 days. Once it goes up to 180 days, then we can crush ~520 lac quintals of cane. The sugar production will depend on recovery. If at 520 lac quintals, the recovery is 10%, then it is 52 lac quintals. If it is 11%, then it will be higher than that.
- Sumant Kumar** What are the expected revenues and EBITDA for FY19 in the distillery segment?
- J. K. Jain** We would not be able to give you the revenues, but in terms of EBITDA, we are expecting about 25% return on the investments (which is about Rs. 200 crores), so we are expecting additional EBITDA of about ~Rs. 40 to 50 crores.
- Sumant Kumar** And what is the currently spread between the cost of production and sugar and sugar price?
- J. K. Jain** We are carrying the inventory at about ~Rs. 3,000 and the price in our region is about ~Rs. 3,600 to 3,700.
- Sumant Kumar** In Q4, you said the inventory cost is around ~Rs 3,024 and realization is ~Rs. 3600. Then; why the margin has declined Q-on-Q basis because in Q4, margin was 24% Q4 FY17 and in Q1 FY18, margin is 16%.
- J. K. Jain** The sugar PBIT has some element of seasonality because some of the costs that we charge during offseason come back to the profit when we produce, though the margins are not comparable straightaway quarter-on-quarter. In terms of per quintal sales margin vis-à-vis production, we are virtually same as Q4 FY 17.

- Sumant Kumar** As you have said that the higher sugar production might outpace demand, so in that scenario, can we expect the spread to decline in FY19?
- J. K. Jain** See, difficult to comment on that because it will depend on too many actions that the government takes. But as of now, for the next season, people are not saying that the output will be substantially higher than demand. So, we do not expect significant drop in margin but we cannot give you an outlook on margin so far.
- Sumant Kumar** Corn, paddy and vegetables have driven the Bioseed revenue. We have cottonseeds as well; and in Punjab and Haryana, the cotton sowing is higher. We have not discussed about how the cotton has done in our portfolio.
- J. K. Jain** On cotton, we have not seen significant growth in our portfolio. Our overall sales is expected to be higher by about 5%-7% because in North, a competitor had launched a very good hybrid, so they have captured little higher market share. We have also launched some hybrids in this season, which are expected to pick up going forward This should enable us to gain market share, but this year we have not registered a significant growth.
- Sumant Kumar** But from what I know, your cottonseeds were doing well in Punjab and Haryana.
- J. K. Jain** The market has grown in Punjab and Haryana only; but our sales have been flat. We have not gained market share. Other competitors have gained market share.
- Sumant Kumar** Can you name the competitor who is doing well in that area?
- J. K. Jain** I do not think I would like to do this.
- Sumant Kumar** Which seeds have higher contribution in our portfolio?
- J. K. Jain** Cottonseed is still the highest in terms of sales as well as profits. It is still about 50%-55%.
- Moderator** Thank you. We will take our next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera** Some of the companies have mentioned about adoption of early variety cane, which got a much higher recovery for sugar. Have you also adopted this variety and if yes, what was its percentage contribution in the total crushing last year?
- Ajit Shriram** Yes, we have also been adopting this early variety since last couple of years and now 60%-70% of our area is under this particular variety called 238.

- Sachin Kasera** Is it fair to assume that 70% of the cane crushed in FY 17 was early variety of 238?
- Ajit Shriram** I am talking about the season, which is coming up.
- Sachin Kasera** And what was the proportion in FY17?
- Ajit Shriram** Around 50%-55%.
- Sachin Kasera** What is the recovery in FY17 and what is our expectation because of this improving ratio of early variety?
- Ajit Shriram** The recovery depends on various factors; primarily climate, the time of harvesting, freshness and maturity of the cane etc. So it is difficult to give a forecast of recovery for the following year at this point of time because the monsoons are onset right now. It depends on large number of factors, so it is a bit early to give a forecast on that.
- J. K. Jain** Last year recovery was 11.11% and it was same in the year before that.
- Sachin Kasera** For power, what is the target for number of exported units for FY18?
- J. K. Jain** There is no target issue, because it will depend on the cane crush. If the cane crush goes up, then the power export will also go up because power will be exported for a longer period.
- Sachin Kasera** Some of the companies have indicated that they are looking at 15%-25% increase in cane crush for the coming season. Is that some sort of a range that we can work for DCM also or we could be looking at a much lower number because in FY17 itself, we had a very big increase.
- J. K. Jain** The cane plant area has gone up by about 15%, but as I just mentioned, it will depend on what happens to the yield and depending upon the yield, the final cane crush may change. It can improve or be lower.
- Sachin Kasera** Our utilization at Bharuch has improved from 77% to 80% in March, how do you see it over the next 2-3 quarters going by the type of demand we are seeing especially in chlorine because that is the key to ramping up.
- Vikram Shriram** I think it will pick-up gradually as the chlorine demand keeps pace and ramps up. So while we have been seeing an improvement in capacity utilization for the last three quarters, this trend should continue and we should see it continuously improving over the next 2 quarters.
- Sachin Kasera** Can we hope to exit Q4 by almost 95%-100%?

- J. K. Jain** In Chlor-alkali the maximum that you can achieve is about 93%-94% utilization. So our expectation is similar by year end.
- Sachin Kasera** What is the amount of chlorine that aluminum chloride can consume?
- J. K. Jain** It consumes about 0.8 per tonne of aluminum chloride.
- Vikram Shriram** So, 60 tonne per day will consume about 48 tonnes per day at full capacity utilization. It will take a little bit of time for the demand to pick up after we launch the product.
- Sachin Kasera** And it will have a similar payback like all the projects of around 4 to 5 years.
- J. K. Jain** This is expected to have an ROI of anywhere between 15%-20%, but the bigger benefit here is that it helps us in stabilizing the caustic production because of captive chlorine which is difficult to quantify.
- Sachin Kasera** Sure. My last question is regarding the future cash flows; our net debt as on June 30, 2017 is down to Rs. 330 crores. In addition, this year in first quarter itself, your EBITDA is Rs. 350 crores, last full year EBITDA was ~Rs. 850 crore. So, when do we get some clarity on the long-term CAPEX plans for the company over the next 3-4 years because we may end with almost zero net debt in this financial year; with Rs. 800 to 1000 crores of EBITDA.
- J. K. Jain** We should generate some cash surplus for making big investments.
- Sachin Kasera** I am asking when do we get clarity in terms of the capital expenditure for the next three to four years; considering the type of cash flows that we are going to generate.
- Vikram Shriram** We are studying several investment opportunities and over the next 6 months as they come up and the board approves them, you will hear about investment opportunities that will be taken forward. At least over the next 18 to 24 months, new investment initiatives will be taken forward which the board will approve over the next 3 to 6 months.
- Sachin Kasera** And are we doing it all internally or are we also taking help of some external consultants to evaluate the same?
- J. K. Jain** We are doing everything. We are working with consultants; we are working internally also; everything is happening, but I do not think we would be able to give more details till the board approves it.
- Moderator** Thank you. The next question is from the line of Anant Jain, he is an individual investor. Please go ahead.

- Anant Jain** As I have seen in the previous con-calls and even now when you are talking of projects, you are looking at an IRR of 25% from all new investments that we make. Is that a correct assumption?
- J. K. Jain** No, I do not think we said this. We said that whatever projects we have implemented, which have just been commissioned, we expected ROI of 25%. One; There is difference between ROI and IRR and I am talking about ROI right now. Second, we do not have any cutoff rates that we have set for ourselves, it so happened that these projects were brownfield projects, therefore they were leading to 25% ROI. That may not always be the case. Aluminum chloride for example, is expecting about 15%-20% only.
- Anant Jain** But that is good enough because chlorine can be a headache sometimes, that makes a lot of sense actually.
- Vikram Shriram** That is the reason we are going ahead with that.
- Anant Jain** For anhydrous aluminum chloride project; when we say it is 60 TPD then what is the consumption of chlorine; is it 48 TPD as you said?
- Vikram Shriram** Yes, that is right.
- Anant Jain** And we will be consuming around 12 TPD of aluminum for that?
- J. K. Jain** 12 TPD, Yes, 20% aluminum and 80% chlorine, you are right.
- Anant Jain** Most of the aluminum is produced in the Eastern side of the country and there would be significant transportation cost involved here whereas most of our competitors have a partnership with Nalco. Grasim itself has Hindalco and other divisions along with caustic. Do we have some kind of cost benefits like on this side of the country because the entire aluminum setup is on the other side?
- Vikram Shriram** Aluminum cost in the overall cost structure is relatively low in the aluminum chloride cost structure. In addition, actually about 60%-70% of the chlor-alkali capacity is on the West. So 60%-70% or more of the aluminum chloride capacity will also be in the West.
- J. K. Jain** Also, this is used for dyes, pigments and pharmaceuticals where the major consumption center is West. We have done all this analysis based on which we are saying we expect 15%-20% return on this besides helping us in the caustic production.
- Anant Jain** Make sense. In urea the capital employed has gone up in last 6 years from Rs. 181 crore to Rs. 395 crore. I know it is an old business, but looking at the return on capital it is becoming a capital guzzler. So I would want to

understand more as to why are we still going to continue our business for a very long period of time.

**Vikram Shriram** Firstly, it is highly government regulated and what you read as the capital employed would be as on, probably, 31<sup>st</sup> March when the government has run out of its budget by October-November of the previous year. So, a substantial part of the capital employed is actually dues of subsidy from the government. Now, we are hoping that with some rationality coming in the government's policy and some relook taking place, that the future will not be the same as the past.

**Anant Jain** So are we expecting the direct benefit transfer, which the government is talking about?

**Vikram Shriram** That is there and also, there are various things that the government keeps talking about to improve the viability and attractiveness of the fertilizer industry.

**J. K. Jain** Anant, this question you had asked in the last concall also. Our CMD had clearly replied that we consider it as a part of our core business. It is an integral part of our Kota manufacturing complex and therefore our board is not considering either a discontinuation or divestment of this. I would request if we can rest it at this. If you repeat it every quarter, we would give you same answer.

**Anant Jain** A similar question is on the side of Bioseed, which I understand has a long gestation. Are we expecting a lot of money or a lot of future income from whatever we have put in, in the last 6 to 7 years?

**Vikram Shriram** Lot has been invested in the research. Until the seeds cycle or the agri input industry was disturbed by erratic monsoon 3 years ago in India and in our international geographies, this business was growing very satisfactorily and giving higher ROCEs in excess of 25%-30%. It is only after this disturbance that this business has been upset in the last 2 to 3 years. We are very hopeful and confident that with the product pipeline and the research investment we have made, it will come back to being an attractive business few years from now.

**Anant Jain** What are the asset turns in Fenesta business, if you would be able to throw light on that. This question is because we are expecting doubling our capacity from the Rs. 30 crore CAPEX.

**Vikram Shriram** Well, the asset turns depend on capital assets and working capital. The working capital depends on the ratio of retail business and project business. So, while the fixed asset turns are relatively high the working capital fluctuates. 5 years ago, when we were purely project centric business, the capital employed in the business was in excess of Rs. 100 crore. Today, I

think it is below ~Rs. 10 crore - Rs. 15 crore. So, the basic point is that the asset turns are much higher than they are in a commodity business. Also, this is a consumer-facing business; it has the logic and business rationale of its own.

**J. K. Jain** Just to add further, we have said that earlier that Fenesta is a small segment for us which we have pioneered and we are developing. We do not have any benchmarks or targets which we can share. So, our sense is that whatever we disclose for Fenesta, we can not disclose more than that. It is in "others" segment, it is a pretty small segment for us, so that is the maximum disclosure we can do for Fenesta.

**Vikram Shriram** However, it is growing at a satisfactory pace, it has a brand leadership and market leadership and is well established and as the growth increases the profitability will keep improving.

**J. K. Jain** Correct. And once it achieves some significant size and establishment, we will definitely share with the investors.

**Anant Jain** Make sense. But if there are competitive issues you can just say that you are not able to answer the question because I have a lot of other questions on Fenesta. I will just read them out.

**J. K. Jain** As I mentioned that for Fenesta we cannot share more than whatever we have shared because it is a pretty small segment for us and we, therefore, cannot disclose much more about it.

**Anant Jain** So, just a few suggestions on Fenesta side: I have seen and observed Astral as a business in the CPVC segment and the key driver for Astral was the plumber. The plumber would drive the decision of buying for Astral. One of the suggestions I have for Fenesta is that why not we have an agency model because the retail preference drivers are mainly the interior designers, the builders and the architects.

**Vikram Shriram** It is a completely customized product and all efforts are made to market; all the requisite segments including architects, interior designers, influencers and end users have a demand pull.

**J. K. Jain** Anant, we are in this business since 2003 and we have pioneered it. So, I am sure you can believe in us that we are studying and trying all kinds of sales techniques and marketing models over this period we have taken whatever works.

**Vikram Shriram** And possibly you can get more information by going through the Fenesta website. That will give you a lot of information of the kind of work being done by the business.

- Moderator** Thank you. We will take our next question from the line of Ritika Jalan from Narnolia Securities. Please go ahead.
- Ritika Jalan** What is the reason for decline in the price of Alkali segment? Was there a fall in the demand or we could not match with the import prices?
- J. K. Jain** No, Chlor-Alkali prices actually have moved up vis-à-vis Q4; they have not gone down.
- Ritika Jalan** Yes, I know but if we compare on year-on-year.
- J. K. Jain** There also it has been virtually flat. Movement of Rs. 1,000 - Rs. 2,000 in commodity prices is pretty normal. I do not think it shows any significant trend in the prices. Share price can remain steady. Similarly, commodities prices do move up and down within a range. So, there has not been any significant change in the demand-supply pattern.
- Ritika Jalan** Have we closed down any stores in this quarter?
- J. K. Jain** Which store?
- Ritika Jalan** Like Hariyali Kisaan Bazaar.
- J. K. Jain** No, we closed Hariyali about four years ago. So, we are only selling the properties now.
- Ritika Jalan** Yes, have you sold any property?
- J. K. Jain** Yes, we did sell one.
- Ritika Jalan** Yes. Can you name the property?
- J. K. Jain** No, I would not know that name.
- Moderator** Thank you. The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.
- Raj Gandhi** Sir, just if you could highlight if the caustic prices moved up Q-on-Q or it is largely led by Chlorine realization normalization?
- J. K. Jain** Are you talking about sequentially or year-on-year?
- Raj Gandhi** Sequentially, Sir.
- J. K. Jain** Sequentially, the Chlor-Alkali prices have moved up by about 8% - 10%. These movements are within a range, it has not broken the range still. But yes, at an overall level it has been higher in Q1 vis-à-vis Q4 last year.

- Raj Gandhi** Okay. So, as I see the sequential increase is about Rs. 2,600 in per tonne basis. How much of that has come from Chlorine realization because I remember last quarter you said that Chlorine realizations have dropped to as low as negative 7,000 on an average. So, has the Chlorine realization inched up or Caustic prices have moved up?
- J. K. Jain** I do not have the exact break-up. But my sense is that both of them have contributed positively during this particular quarter versus last quarter.
- Raj Gandhi** Okay. And sir, just if you were to see regional prices, they indicate huge upswing over last 6 months. Those are CFR Asia prices. So, which one should we look at; because that shows sharp 30% - 40% improvement and we are even hearing that Caustic prices in few pockets of India have risen as high as Rs. 38,000 from Rs. 25,000. So, just if you could throw some light on this.
- J. K. Jain** I think you are comparing apple and oranges, Rs. 25,000 - Rs. 38,000 are different type of prices.
- Vikram Shriram** I guess one would landed and the other would be XWR because I do not think there has ever been such a large variation in prices regionally.
- J. K. Jain** But as I said, during last one year the prices have been within (+/-10%) range and have not broken that particular range.
- Raj Gandhi** Okay. And sir are the exit prices much higher versus the quarterly average or for that matter the spot month prices; are they materially higher or lower versus Q4? Where do we stand right now?
- J. K. Jain** Versus Q1?
- Raj Gandhi** Yes, versus Q1.
- J. K. Jain** No, the prices are more or less stable as I said, they moved within a narrow range, but it have not moved out of that range.
- Moderator** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.
- Sunil Jain** Sir, my question relates to the chemical division. Out of the total Chlorine which we produce in Bharuch, how much percentage is getting utilized by our own self?
- Vikram Shriram** We do not have any captive consumption within our own Bharuch factory. But we have captive supplies to consumers who have put up their factories around us. We also have pipeline supplies to captive consumers.

- Sunil Jain** Okay. The PVC manufacturing does not consume any Chlorine?
- Vikram Shriram** In Kota it consumes about 50% to 60% of the total Chlorine available.
- Sunil Jain** And this new plant of Aluminium Chloride, is that coming at Bharuch or Kota?
- Vikram Shriram** That is coming at Bharuch.
- Sunil Jain** Bharuch. So, that will consume the Chlorine.
- Vikram Shriram** 48 tonnes to be precise.
- Sunil Jain** So, how much percent will it be of the total?
- J. K. Jain** It is very small; about 7% - 8% maximum. But that is at full capacity and we may take 1 or 2 years to reach full capacity.
- Vikram Shriram** Plus almost 25% to 30% of our capacity is to the pipeline consumers.
- Sunil Jain** Okay. And sir, apart from Grasim which is coming up with bigger capacity towards the end of this year, is any other player expanding capacity in Caustic Soda which may disrupt overall market?
- Vikram Shriram** Not in next 12 months. But I am told that in the year after that there are some new capacities which are likely to come up. But they are also not very large. I think we have reached a stage where we have an additional consumption of almost 150,000 tonnes a year. So, we are not expecting capacity addition more than that. This is as per the announced plan as of now.
- Sunil Jain** Okay. And sir, any risk from the import side with rupee also getting appreciated?
- Vikram Shriram** Imports are freely allowed and ultimately our domestic prices are capped by the landed cost of import. So, import is a reality which continues all the time.
- Sunil Jain** Since the rupee is continuously appreciating, why the imported material is getting cheaper?
- Vikram Shriram** I had mentioned in my remarks that rupee appreciation is putting some slight pressure on the prices, but then this is a part of commodity business. There will be price pressures and there may be cost benefits also as some of our coal is imported, so the rupee will get us some relief there. All the coal consumed in Bharuch is imported.

- Moderator** Thank you. The next question is from the line of Sreenath Sridhar from ICICI Securities. Please go ahead.
- Srinath Sridhar** Just wanted to get a sense on if you will have any idea on when the new DBT Scheme will be implemented? And once it is, how will that affect our working capital cycle?
- Vikram Shriram** Well, at present there are very mixed signals coming about the new DBT Scheme. As per the official letters sent by the government to all manufacturers it was meant to be implemented from 1st August. But recently, there have been news articles and other messages that another committee has been set up by the government to look at the practicality of DBT. There have been concerns raised that POS machines will not be able to handle the rush that comes in certain parts of the season when farmers want Fertilizer at short notice. So, I think the matter is really in a flux, it is not known when it will come and they are still talking about possibly doing some more pilot projects. They have already done it in 16 districts but they did it in off-season. Now, there are some talks that they are doing it in the next season in some more districts. So, there is a great deal of uncertainty about DBT.
- J. K. Jain** In fact, even for the pilot districts the government has still not disbursed the subsidy to the manufacturer and they are not able to even raise claims against those subsidies. So, I do not think even the pilot has got on successfully so far. Once probably they regularize it and complete it; then only the final date will get announced.
- Srinath Sridhar** Right. And if at all it gets implemented; does it impact our working capital cycle in a positive way?
- Vikram Shriram** In the current form and fashion as it is designed; it will impact it in a negative way in fact. But we do not know what the final design will be and what the final shape will be.
- Srinath Sridhar** Okay. Sir, we manufacture Urea and apart from that the DAP, MOP and SSP; are they traded?
- Vikram Shriram** We have stopped DAP and MOP over the last 18 months. We have stopped trading that. We are in SSP, we manufacture a small quantity in plants of our own and we trade the remaining bulk SSP.
- Srinath Sridhar** Okay, sir. And given that going forward the proportion of Ammonium Fertilizers will reduce; will it give way to more Phosphatic Fertilizers?
- Vikram Shriram** There is this natural imbalance in India of a much higher degree of nitrogen. I presume you are meaning the NPK when you are saying Ammonium. The balance is completely distorted because of the subsidy on Urea which is not

there on the P and K to the same extent. The desire of everyone who has anything to do with Agriculture is to get the balance back so that the soil health is regained. Frankly our farmers are suffering because of distorted pricing policies leading to distorted utilization of NPK in an unbalanced banner which ultimately harms the soil. The government is looking at policy initiatives but nothing has really been firmed up.

**Srinath Sridhar** And given that this is going to be a Fertilizer heavy quarter, what kinds of growth can we see?

**J. K. Jain** It was not a Fertilizer heavy quarter for us. We have stable capacity, so we do not see any volume increase or any such thing in our Fertilizer business.

**Vikram Shriram** We are not growing our Fertilizer business; we have capacity of 4 lakh tonnes per annum. We produce approximately 4 lakh tonnes per annum and sell 4 lakh tonnes per annum. So, it is steady carry-on business for us.

**Moderator** Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

**Rohan Gupta** Sir, two questions. One is that as you had very clear cut mandate, whenever you are doing any Brownfield CAPEX the criteria was 25% ROI. It is slightly early to ask but on the new CAPEX which we are going to finalize probably in 6 months to 1 year; what is the threshold criteria you are looking at?

**Vikram Shriram** We do not have something written in stone. Frankly there may be different CAPEXs which come from different logic. We just mentioned about Aluminium Chloride; it gives captive Chlorine consumption which gives stability to the Caustic plant. The direct CAPEX, the return from the CAPEX on Aluminium Chloride project parse was not that high. It is between 15% and 20%. But the actual benefit is much higher, if you see the stability it brings to the Caustic sales.

**Rohan Gupta** But sir, given the size of that project; it is hardly Rs. 50 crore but now if I assume new CAPEXs which we will be doing over next two years to three years in which we will be looking for the cash flows accumulation; the project size may not be less than Rs. 1,000 crore to Rs. 1,500 crore. So, with that kind of investment opportunity which is opening in next 2 years to 3 years, I think the company must have done some benchmark number or earmarking for a threshold return ratio for any CAPEX. So, I just want to understand the management thought process.

**J. K. Jain** Rohan, we do not operate on standard numbers. The investments should make long-term strategic growth sense even if it means lower ROI in the beginning. So, we are not driven by an ROI number only.

- Vikram Shriram** Certain businesses take time to pick-up and stabilize. So, initially the ROI may be low.
- Rohan Gupta** I just wanted to understand if there is any metric like ROI or payback which you are following.
- J. K. Jain** We go by the potential and the strength of the business and the strategic fit.
- Vikram Shriram** There could be different logic for different investments like the strategic fit of the business, the potential for growth, long-term potential for growth, counter cyclicalities etc.
- Rohan Gupta** Okay. Did you share the seed volume for the quarter in packets?
- J. K. Jain** Seed volume?
- Rohan Gupta** Yes, million packets in Cotton seed?
- J. K. Jain** No, we have not shared that because the season is still on in particularly some parts of southern India. So, we do not have the final volumes right now vis-à-vis the last year; we would be able to share that in Q2 with you.
- Rohan Gupta** Okay. And sir, in the presentation you have also mentioned that the revenue from domestic seed business is Rs. 274 crore versus Rs. 264 crore last year and Cotton, Corn, Paddy and Bajra; all the key crops have seen that improvement. In Cotton; you have already said that you have not gained any market share and have been losing to the competitor. So, is the seed business showing ~15% to 20% decline as of now and that is why the revenue from the domestic seed has not improved?
- J. K. Jain** Seed business has not shown a decline.
- Rohan Gupta** Not decline, but it has not increased also compared to last year. I want to understand if the cotton seed this year is likely to show decline over last year?
- J. K. Jain** No; as an industry Cotton seed has grown.
- Rohan Gupta** It is 15% to 20% up in terms of growth.
- J. K. Jain** What we have said is that our Cotton seed has been flat in north which is where the season is over. In the central and south the season is still on, so we are not able to still give an exact sense as to what will be the growth. We are not saying that we have de-grown.

- Rohan Gupta** Okay. In south and central; there will be some growth and we do not know the number as of now?
- J. K. Jain** Yes.
- Rohan Gupta** Okay, Sir, in Fenesta; what kind of investment you expect to spend over next two years in budget, advertising and promotional expense (absolute amount)?
- Vikram Shriram** I think it is a part of the business strategy and it would be very difficult to articulate exactly in detail what we are planning to do.
- J. K. Jain** Plus these vary from year-to-year depending upon the market. If we are targeting a lot of new markets it will go up and if we are not, it goes down. So, these are very changing numbers from quarter-to-quarter. We do not have a benchmark or target in that. The objective is to grow the market penetration.
- Rohan Gupta** The market has been growing even above than your estimate; you have been looking 15% to 20% and it has grown even higher.
- J. K. Jain** So, that is why we are saying that depending upon what is the need of the market, we take steps. We are not chasing a particular number on expenditure.
- Rohan Gupta** For the 27% growth which you have seen in Fenesta in this quarter, I believe there would have been some impact of even GST also. So, for the year end, the probable growth for Fenesta business may be even higher; even an upward growth of 35% to 40% is much higher than what you expect.
- Vikram Shriram** It is too early to say because projects are still very sluggish and GST is yet to settle down. So, I think it is too early to take a call. Yes, we are hoping for good growth. But I do not think we can put a number to it.
- J. K. Jain** Also we do not give any future outlook on any of the numbers.
- Rohan Gupta** I was just looking at how it is panning out versus your earlier estimates. So, are you looking at 20% growth?
- J. K. Jain** It is satisfactory and it is doing well. But I do not think we can give any outlook on that.
- Moderator** Thank you. The next question is from the line of G. Vivek from GS Investments. Please go ahead.

**G. Vivek** Just wanted to know whether there is any plan of value unlocking by the way of demerger, if not then why not?

**Vikram Shriram** No, we have not looked at that, it has been raised in the past concalls also. We find that our business model of being able to invest heavily in particular sectors depending upon the growth opportunities and the attractiveness has worked well for us. I think that 7 - 8 years ago we invested Rs. 700 crore - Rs. 800 crore at one go in Sugar. In the last 12 months, we have invested about Rs. 800 crore in Chemicals and Sugar. Similarly, in the future, we expect to continue investing substantial sums for growth. So, our composite model has worked well for us.

**G. Vivek** There would be many investors who would be interested in the specific part of your business, for example Fenesta is doing wonderfully well and is being separately listed.

**Vikram Shriram** Fenesta is still in the “others” segment which means it is still a very small part of our business, it has to grow up a little bit more and then let us see where it goes.

**J. K. Jain** And also we have stated that publicly that we will remain a conglomerate, so therefore, we are not the right company for an investor who is only looking at an individual segment. We are a conglomerate and we will remain a conglomerate.

**G. Vivek** That would be leading to us a very low price to earnings multiple. We feel that our group is best surviving group from the DCM groups and deserves much more price to earnings multiple.

**Vikram Shriram** I think that right now our new IPO referring to Fenesta or Bioseed or any of these which may get a higher price earning multiple in the future has many years to grow up to the size and scale at which they can think of spinning it off. So, right now we are not considering spinning off any part of our business.

**Moderator** Thank you. Next question is from the line of Pratik Tholiya from Emkay Global. Please go ahead.

**Pratik Tholiya** Sir, I just wanted to understand that in the Presentation you have not mentioned about the subsidy in the farm solution. In March, it was around Rs. 200 crores, so what is the status on that?

**J. K. Jain** I think has remained more or less the same. There may have been small disbursements.

**Pratik Tholiya** Okay. So, it is around the same Rs. 200 crores?

- J. K. Jain** It has come down to Rs. 135 crore.
- Pratik Tholiya** Sir, in Fertilizer business we have seen a sharp decline in profitability. Even if we adjust for this one-time gain of subsidy areas in the base quarter, still there has been a sharp fall in the profitability; If you could just throw some light on that?
- J. K. Jain** See, we had a scheduled shutdown in Fertilizer business which happens once in two years. So, this shutdown had happened in April which was for around 11 - 12 days. It meant lower production during the quarter and more shutdown expenses. So, that is the reason. But for the year as a whole we will still be at the same level as last year in terms of production.
- Pratik Tholiya** if you could just give the guidance on the tax rate for FY 2018.
- J. K. Jain** It is about 18% - 18.5%.
- Pratik Tholiya** If you could just give the debt repayment schedule for FY 2018 and FY 2019?
- Pratik Tholiya** See, our debt repayments are not very large, it will be Rs. 60 crores - Rs. 70 crores spread over longer period. So, it is not very significant with large debt repayments.
- Vikram Shriram** Our debt to EBITDA is now below 1.2 - 1.3
- J. K. Jain** So, it is not more than Rs. 75 crore per year.
- Moderator** Thank you. We will take the next question which is a follow-up question from Anant Jain, he is an individual investor. Please go ahead.
- Anant Jain** Do we have a stated dividend policy in terms? As we have had a fantastic quarter but there is no dividend disbursement.
- J. K. Jain** Yes, it is there on our website. All listed companies have to have a dividend policy; we have also come out with that and it is there on the website.
- Anant Jain** Okay, sir. The other question is again sort of an open-ended question because when I was looking at the industry, specifically the Chlor-Alkali business, it has been such a good business for our company in last 7 years. I was not able to find any cyclicity into it. So, can you just throw some light?
- Vikram Shriram** Chlor-Alkali is cyclical, like all commodities. But we have a policy of continuous expansion. So, it is quite possible that there had been some continuous cost improvements. It is possible that some elements of the cyclicity got cancelled or counter affected by timely capacity expansions.

- Anant Jain** I also observed other companies in the same segment like the Andhra Sugars or Grasim and I was not able to fix out a cyclicality.
- J. K. Jain** The prices are volatile; they vary from 15% to 20%. There must have been several counter cyclical factors to take care of that.
- Anant Jain** Yes, I agree because the ROCE never goes below 40%.
- J. K. Jain** The prices do vary quite a bit actually.
- Vikram Shriram** Actually the coal costs are cyclical and ECU prices are also cyclical.
- Anant Jain** Are the Caustic and the Chlorine prices counter cyclical to each other?
- J. K. Jain** Not necessary as we have seen both of them move in one direction also. So, it does not have any defined pattern.
- Anant Jain** And sir, the last thing I wanted to say is that I have gone through YouTube advertisements for Fenesta; they are beautiful. I just want to see them on the TV as well.
- J. K. Jain** Thank you.
- Moderator:** Thank you. Ladies and gentlemen, that was our last question. I now hand the conference over to the management for closing comments.
- Vikram Shriram** Ladies and gentlemen, we thank you for your participation in our Q4 & FY17 earnings conference call.
- With respect to our manufacturing businesses, we are focused on driving growth by increase in scale; optimise cost structures to sustain reasonable margins and to strengthen the businesses through integration. Our Agri input businesses will drive their performance through investments in demand creation and research & development, leading to optimum product mix over the medium term. We have taken steps in this direction as stated in our discussions, and will continue to take steps to deliver growth supported by a strong Balance Sheet and robust internal generation.
- Moderator** Thank you. On behalf of DCM Shriram Limited, that concludes this conference. Thank you for joining and you may now disconnect your lines.