



DCM Shriram Ltd.

Q4 & FY16 Earnings Conference Call Transcript

4:00 PM - May 11, 2016

Moderator: Ladies and gentlemen, good day and welcome to DCM Shriram Limited Q4 and FY16 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 '*' then '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, sir.

Siddharth Rangnekar: Good evening and thank you for joining us on DCM Shriram Ltd.'s Q4 & FY16 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 conference call invite sent to you earlier.

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's operations for the quarter and year ended March 31st 2016 and the opportunities going forward. Over to you, Sir.

Ajay Shriram: Thank you. Good evening ladies and gentlemen, and a very warm welcome to DCM Shriram Ltd.'s earnings conference call for the quarter and year ended March 31, 2016. I will take this opportunity to share with you insights into our operating performance and plans going forward, following which Vikram will take you through the financial highlights of the Company.

We are delighted to report an improved performance of the Company during Q4 and FY 16. Improvement was led by better operating environment in sugar business and robust performance of our Chemicals

business. Performance of our Agri inputs businesses however, was affected by the challenging Agri-scenario during the year.

Let me now take you through the business wise developments:

Sugar - The Sugar Season 2015-16 ended on a positive note with Sugar recovery at 11.1% from 9.9% last year. This led to lower cost of production at Rs. 2,791/Qtl from Rs. 3,101/Qtl last season. Prices have firmed up from a low of ~ Rs.22 per kg in July 15 to ~ Rs. 31 per kg in March 16 and currently ~ Rs. 34 per kg. The Cane crush however was lower by 7% due to lower cane yield in the region vs last season, but sugar production was higher by 3% due to higher recovery. There have also been some fundamental changes in operating environment led by Central Govt's policies such as export of surplus sugar and impetus to ethanol blending. UP Govt. has announced rational cane policy for second consecutive year that aligned cane price/subsidy with sugar prices. These have provided support to the domestic sugar industry which was facing a tough financial situation for last many years and was also impacting the farmers' economics in terms of high cane arrears. Despite all this the returns from the business are sub-optimal. These measures need to be sustained over long term to ensure viability of the Industry and the farmer.

Chloro Vinyl – Business continued to deliver improved performance during the year. Chlor-alkali witnessed robust performance with better operating efficiencies, lower costs and firm prices. However Vinyl was impacted by softer prices. Various levies on coal as well as on power generation by the government, have adversely impacted these businesses. Domestic prices will follow the international price trends with lower protection from custom duties. Demand growth in these businesses continues to grow at reasonable rate and is further expected to increase with growth in the economy. Capacity expansion at Chlor-alkali complex at Bharuch along-with investments in Cost saving schemes will help us in improving our cost profile and expand earnings from this business.

Shriram Farm Solution - Business' performance during FY 2016 was impacted by another year of deficient monsoon and poor farmer finances, This has led to lower offtake of Agri-inputs such as seeds, crop care chemicals and specialty chemicals. Earnings during the year also contracted due to lower margins in the bulk fertiliser business as muted demand led to inventory buildups and price competition. Subsidy outstandings in the business continue to remain high thereby putting pressure on earnings. The company has decided to rationalize its bulk fertilizers business as thin and inconsistent margins along with high capital employed, over the last few years has led to high volatility in the earnings. Forecast of normal monsoons in current year is expected to boost performance of the Value Added segment in FY 17. Medium-long term outlook remains strong given

the business' focus on expanding product portfolio of differentiated products along with distribution network and marketing initiatives.

Bioseed - El-Nino impact has led to adverse weather conditions across India and in our international operations at Philippines, Vietnam and Indonesia, impacting volumes and hence earnings during the year. In India, the BT cotton volumes declined particularly in north. In International markets successive years of drought has delayed turnaround of these operations. With El-nino impact fading there is expectation of normal monsoons which will revive the Agri sector and we expect to better our performance in FY17. The business continues to invest in R&D, leading to a healthy pipeline of products which places us well to witness growth over medium term in India as well as Internationally. However, the Central Govt's decision to regulate Cotton seed prices, trait value and related litigations may impact performance in the short -medium term.

Fertilizer - Business' performance was impacted by tightening in energy norms under the New Urea Policy. On our part we have improved on energy consumption over last year and will improve further in FY 17. High subsidy outstandings and inadequate reimbursement for conversion costs continued to impact business' earnings. We are working with the Government to have a rational pricing mechanism for older plants to ensure viability of this business.

Fenesta Business - Fenesta business' performance showed marked improvement in FY 16 on robust increase in volumes over previous year. The business' order booking also increased strongly during the year with 'Projects' section gaining traction. Fenesta has established itself as a leading brand in India in the UPVC windows sector in India and is poised to witness growth with overall improvement in the real estate sector.

Our expansion projects in the Chlor Alkali and Sugar businesses are progressing as per plan. Additional chemicals capacity will come on-stream partly in Q1 FY 17. Full capacity along with additional captive power capacity expected to by Q2 FY 2017. Sugar co-gen expansion project is on schedule, to be commissioned by Q3 FY 17. These would improve company's market position, competitiveness and significantly add to our volumes and earnings from FY 17 onwards. The company remains focused on growing the Bioseed, Farm Solutions and Fenesta businesses and on improving its cost profile across all businesses.

In line with our strategy to work with best practices for our businesses we have gone live and upgraded our ERP with S4 HANA which is the latest offering from SAP and we are amongst the early adopters of this latest ERP from SAP. This is expected to bring tremendous benefits to our business in terms of better controls and efficiencies.

I would 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.

Revenue during FY16 and Q4 FY 16 were stable at Rs. 5841 crore and Rs. 1333 crore respectively.

FY 16 PBDIT improved to Rs 544 crore and Q4 to Rs. 130 crore. The improvement is attributable to profits in Sugar business from a loss in the last year and strong earnings in the Chloro-vinyl business. Financial Charges are also low due to lower cost of borrowings.

Let me now take you through our business wise performance.

Sugar Business – Production during the just concluded sugar season increased by 3% to 32 lac qtls on improvement in recoveries to 11.1% from 9.9% last year despite crush being lower by 7%. FY 16 revenue decline was due to lower volumes and lower average realizations. Earnings improved significantly in FY 17 due to positive margins in Q4 leading to nil inventory write-down vs Rs. 98 crore last year. However, for the year as a whole the business could just breakeven, if one excludes the subsidy of Rs. 85 crore relating to previous sugar season.

Business' capital employed is higher at Rs 1,038 crore as on March 31, 2016 vs. Rs 785 crore as on March 31, 2016 due to higher closing inventory and lower cane arrears. Sugar inventory stood higher by 4.4 lac Qtls to 23 lac Qtls as on March 31, 2016 due to higher production and lower sales volumes during the year.

Chloro-Vinyl business - FY 16 revenue stood marginally lower due to the 7% decline in PVC volumes and 8% fall in realizations during the year. This was compensated by Chemicals with 5% increase in realizations and rise in volumes. FY 16 earnings increased by 10% YoY on account of higher Chlor Alkali realization and lower input costs for Chloro-vinyl, except for power costs.

Q4 revenue was down by 5% as the business undertook annual maintenance shutdowns at both the Kota and Bharuch plants. Q4 earnings improvement was primarily on account of the 18% increase in Chlor Alkali realizations and lower input costs for Chloro-vinyl.

Segment's capital employed increased to Rs 762 crore up 54% vis-à-vis March 31, 2015 due to the ongoing expansion project undergoing at Bharuch plant.

Shriram Farm Solutions – Revenue during the year increased to Rs 1,798 crore up 27% YoY on higher volumes of bulk fertilizers. Revenue of DAP/MOP stood at Rs. 692 cr. vs. Rs. 329 crore last year. However, revenue of the ‘Value Added’ segment declined by 6% YoY in FY 16 due to weak monsoons. FY 16 PBDIT declined by 17% YoY as margins in bulk fertilizers were significantly lower along with lower volumes in Value added. Going forward revenue of the segment will come down on company’s decision to rationalize the bulk business. Q4 revenue up by 30% led by Bulk fertilisers. Earnings were stable.

Capital employed stood higher by 39% as on March 31, 2016 primarily due to higher subsidy receivables that increased to Rs 307 crore from Rs 203 crore as on March 31, 2015.

Bioseed – Revenue stood lower at Rs 485 crore in FY 16 vs. Rs 570 crore due to lower sales of BT Cotton and corn seeds in the domestic market as deficient monsoons impacted acreages during the year. Revenue of international business also stood lower as the El Nino phenomenon affected off take in the international markets of Philippines and Vietnam during the year. Lower revenue during the year led to lower earnings, with International operations having higher losses on lower volumes.

Fertilizer Business – Revenue up by 10% YoY in FY 16 on higher gas prices. Revenue in Q4 FY 16 was higher by 3% due to higher production as in Q4 last year business undertook a maintenance shutdown. Earnings during the year and during Q4 FY 16 impacted by tightening of energy norms under the New Urea policy that came into effect from June 1, 2015. Business’ subsidy outstandings stood at Rs 454 crore vs. Rs 370 crore as on March 31, 2015.

‘Others’ segment includes primarily Fenesta, Cement, Hariyali and PVC compounding that is under a 50:50 JV.

Cement Business incurred losses led by continuous stress on prices. Lower input costs helped mitigate the impact partially.

Fenesta earnings increase during the year and Q4 FY 16 was driven by increase in volumes which stood higher by 21% and 41% respectively. Fenesta business’ Order bookings during FY 16 increased strongly with ‘projects’ up by 63% and ‘retail’ up by 18%. Retail business’ contribution to overall revenues stood at 72%, up from 70% last year.

Hariyali business comprises only of fuel sale. Sale of land parcels were slow in FY 16. The Company also took a mark to market impact of ~ Rs. 5 crore in the quarter on account of reduction in realizable value of property held for sale.

The Company's net debt as on March 31, 2016 stood at Rs 1,057 crore up from Rs 688 crore as on March 31, 2015 primarily due to the ongoing expansion in Chlor Alkali and Sugar businesses and higher sugar inventory and subsidy receivables.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Dheeresh Pathak from Goldman Sachs. Please proceed.

Dheeresh Pathak: Sir, what is the current capacity in the chemicals business and what will be the capacity post expansion?

J.K Jain: Our total production is about 270,000 ton a year and we are adding about 550 ton a day which will be roughly about 160,000 ton - 170,000 lakh ton a year on an annualized basis.

Dheeresh Pathak: So when will this get commissioned, the additional 160,000 of capacity?

J.K Jain: It will get fully commissioned by Q2 FY 17 this year with part commissioning in Q1 FY 17.

Ajay Shriram: I will just give a little bit more detail. What is happening is that in our Bharuch expansion, we are expanding the electrolyzers to produce caustic soda as well as putting up a 60+ megawatt power plant. Electrolyzers will be ready in Q1, so we had some old DG sets lying with us for about 24 megawatts. We will start using that to start producing caustic soda as soon as possible within Q1 and our power plant will be commissioned in Q2, once that is commissioned about 60 megawatt we will then take it up to full capacity. So that is how in the next five months we will come to full capacity.

Dheeresh Pathak: The capital employed in Chloro Vinyl segment has gone from Rs 500 crores to Rs 760 crores, so that additional Rs 260 crores is mainly into this expansion that you just talked about, right?

Ajay Shriram: Yes.

Moderator: Thank you. Our next question is from the line of Abhijeet Dey from BNP Paribas Mutual Fund. Please proceed.

Abhijeet Dey: Few questions sir, you mentioned this sugar inventory as of 31st March was 23 lakh quintals, is that right sir?

Ajay Shriram: Yes.

- Abhijeet Dey:** What is the price of that inventory, average which you are holding?
- J.K Jain:** Rs 2,790/Qtl.
- Abhijeet Dey:** And was there any sugar production in the current quarter Q1?
- Ajay Shriram:** No.
- Abhijeet Dey:** So we will be only selling sugar from now on this year?
- Ajay Shriram:** Yes.
- Abhijeet Dey:** Sir, one clarification which I had wanted, slide number 17. You have mentioned average realization of Rs 26,632 /MT for Q4, is that only caustic soda realization or is that ECU realization?
- Ajay Shriram:** ECU, all figures are ECU.
- Abhijeet Dey:** Sir, with the incremental capacity in caustic soda how do you plan to dispose the additional chlorine production?
- Ajay Shriram:** We have already gone into the market and we already have a system today, whereby we have tie-ups with some companies for pipeline transfer. So we are in communication with some of them, they are also expanding with that, they are looking at new customers, plus we have actually started seeding the market already and talking to people for supplying chlorine . So it may take a couple of months to stabilize but we do not see very much of a problem.
- Abhijeet Dey:** Sir, any plans in the future to expand your PVC capacity?
- Ajay Shriram:** PVC, not really, maybe a little bit debottlenecking here and there, but we are not looking at any major expansion there.
- Moderator:** Thank you. Our next question is from the line of Nitesh Jain from Axis Capital. Please proceed.
- Nitesh Jain:** Sir, can you share your view on what is really driving the caustic soda prices globally as well as locally and how do you see next year's outlook, will this buoyancy in caustic prices continue or how do you look at it?
- Ajay Shriram:** If we look at the caustic soda business, basically its driven by supply and demand, and frankly now the import duty is about 7%, so it's really not much and some OEMs can get without any duty at all such as aluminium players. So this is all supply and demand. I think ultimately at the end of the day, our view is that any commodity business has to be competitive on a worldwide scale in terms of cost of production, that is the only way to

survive. So that is how we are moving in our business. We have seen 6-7% growth over the last few years in the caustic soda business which is fairly stable and which is very positive. If the GDP of the country also goes up over the next two - three years to 8-9%, then automatically this will also pickup a little more. We feel there will be stability in prices. Now prices, yes they do move up and down, the Rs.26,000 actually has already now stable prices and I think this quarter has been in the range of about Rs.23,000 - Rs.24,000. We budgeted around the same of about Rs.24,000 for this year, we are not looking at the Rs.26,000 - Rs.27,000 which was there earlier, that was very unusual and for a short period of time. So we are looking at about Rs.24,000 as our ECU realization in our Chlor-Alkali business.

Nitesh Jain: Sir do you think that India will continue to remain the net importer of caustic, at least for a couple of year?

Ajay Shriram: That depends, people on the coast if they get a lower price, they get duty free, they have a particular deal then some caustic does come in, but that way if you see India's position is quite competitive and most manufacturers are doing well. What happens is that when you suddenly have an excess expansion which happens in 2-3 plants then the prices get a little softer then import stops, then after a couple of years when that sort of balances out then imports start again. So that in any commodity a little bit up and down happens.

Moderator: Thank you. Our next question is from the line of Falguni Dutta from Jet Age Securities. Please proceed.

Falguni Dutta: Sir, your profits in fertilizer business in Q4 increased to Rs. 6 crore versus Rs. 2 crore YoY and we have seen Chambal also reporting good numbers, so what exactly is the reason for good performance?

Ajay Shriram: In the urea business see what is happening is that the government a year and a half back, they have sort of pooled the price of gas and pursuant to that they have said that they are going to fix energy consumption norms for certain sets of factories depending on the vintage and technology. So that way they have made three different sets, I think they are most efficient in the range between 5.5 and 6 billion units of energy per ton of urea and 6 to 6.5 and at 6.5, we are in the 6.5 range which they have set for us which we have to achieve by I think 1st June 2019, so we have to achieve it by that time. So that is what we are working towards, we are a vintage plant we know that, we started our plant in 1969. So in terms of our capital employed the plant is very low, at the same time our technology itself cannot be compared to our newer plant that came up in early 90s because they had a much higher capacity as well as their technology is more up to date. However, based on the government policy now we have already got studies being undertaken by three different consultants to see how we can improve the energy consumption of our plants to make it more in line with

what the government has recommended. We still have two years to achieve this, so we expect that we will continuously make improvements in our urea business to achieve the goals of energy consumption which have been set out by the government and we will be within that in two years' time.

Falguni Dutta: Sir, what was the reason for this additional Rs.4 crore profit this year YoY?

Ajay Shriram: In the last year we had a shut down in the fourth quarter.

Falguni Dutta: Yes, but the top-line is more or less the same, like it's a bit higher only?

J.K. Jain: Falguni, our volume has moved up as you will see in the fourth quarter this year which is the effect of the shutdown that we had last year in the fourth quarter and that has led to the higher profit.

Moderator: Thank you. Our next question is from the line of Bhavin Chheda from Enam Holdings. Please proceed.

Bhavin Chheda: Sir, few questions on caustic soda. What is the project CAPEX and how much have we already spent till March 2016 and the same is standing in CWIP and how much is pending which you will spend in FY17? And similarly, what are the other CAPEX plans for FY17?

Ajay Shriram: Our total Board approval for the expansion of caustic capacity by 500 tons per day at Bharuch plus about 60 megawatts of coal based power plant is Rs 600 crore. Of this about Rs.370 crore has been invested till date and the balance will be invested up to the end of second quarter of this financial year. So that is one. And the second one which we have as an ongoing project is to improve the efficiency and get traditional benefit of a more efficient power generation system. In one of our sugar factories we are installing a high pressure boiler by which we get additional 18 megawatts of power from the same volume of bagasse, so that gives us the advantage of being able to sell this additional power which is going to help us in getting a better revenue and better efficiency. The investment on this is about Rs.120 crore which has been approved by the Board. Over and above that, for complex group of our size, we spend between Rs 80-100 crore every year for upgradation, debottlenecking, instrumentation, environment management etc. So I would say in the last one year and the next two years if we compare the total, our total CAPEX would be in the range of about Rs.1,000 crore.

Bhavin Chheda: Next two years?

Ajay Shriram: Last one year, year and a half and the next two years combined.

Bhavin Chheda: Of this Rs.120 crore have you spent anything till date or this entire thing is coming next year?

J.K. Jain: Small amount of some Rs.15-20 crore per capital advances have been done, balance is coming till September.

Bhavin Chheda: So continuing on the sugar thing, if I see your sugar business, basically you have been selling molasses in the market because you do not have a distillery and the way now the industry is shaped up and now with the ethanol blending going mandatory the sugar companies are making big money mainly selling ethanol. So we are not integrated till the distillery front, so we have to sell molasses as the bi-product in the market. So any thoughts on plans for distillery or how do you see this economics shaping up?

Ajay Shriram: You are right and we have discussed this matter, we are selling because in four factories we have adequate molasses available among our four factories itself, so we are discussing this issue. We had already applied for a clearance from the State Electricity Board and for MoEF for license for getting the permission for distillery. But we are still studying this, we have not taken any proposals to the Board yet, we will get better clarity over the next two to three months.

Bhavin Chheda: And how fast you can think this projects can be setup, it could take 12-odd months?

Ajay Shriram: For a distillery?

Bhavin Chheda: Yes.

Ajay Shriram: I think the distillery would take maybe 15 - 16 months.

Bhavin Chheda: So till that time you will keep selling molasses in the market?

Ajay Shriram: Correct.

Bhavin Chheda: And sir on the bioseeds business, the profitability in this segment has come down on YoY basis because last year we saw bad monsoon and problem across cotton seed and all that, so how much cotton seeds you sold in the market and what is the outlook now since the pricing control and now the things are very clear on the royalty and the MRP side, so can we see an improvement year going forward?

J.K Jain: Last year we sold about 37 lakh packets for cotton, this year we are expecting some growth anywhere between 15-20% on that.

Bhavin Chheda: And on margins front?

- J.K Jain:** On the margins front it is a little difficult because market is going through this turbulence because of the price control and the trait value issue, plus the cost of cotton seed has gone up also over last year. So at most we may be able to maintain margins or it may go down by 4-5%.
- Bhavin Chheda:** So in the bioseed business you are saying either you will maintain margins or they may even come down?
- J.K Jain:** On cotton seed I am saying it may come down but on corn and paddy etc it should be better.
- Bhavin Chheda:** How do you see the net debt numbers going into March 2017. What would be your outlook on the gross debt or debt reduction numbers over two years?
- J.K Jain:** See, it will primarily depend on the subsidy outstanding but if the subsidy outstanding remains of the same magnitude then it will go up by about Rs 200-300 crores and then come down in the year after that.
- Bhavin Chheda:** Because you will be generating a lot of cash also next year.
- J.K Jain:** Yes, so that is why I am saying it will come down a year after that.
- Moderator:** Thank you. Our next question is from the line of HR Gala from Panav Advisors. Please proceed.
- HR Gala:** On sugar I have one question, if your ex-mill price which you said that is around Rs.34, if it goes beyond Rs.32 do you have to share anything back with farmers?
- Ajay Shriram:** No, that is actually based on the pricing formula by the state government. What calculation we have given is based on the policy which was there in the last year, out of this recovery we do not have to give anything more.
- HR Gala:** So what is the state advised price as far as UP is concerned?
- Vikram Shriram:** The SAP for last year is Rs.280 / quintal for general variety.
- HR Gala:** Is it linked to recovery?
- Vikram Shriram:** No, it is not linked to recovery. There are three kinds of varieties, one is called general variety for which it is Rs.280, early variety is Rs.295 and rejected variety it is Rs.275.
- HR Gala:** So as far as procurement is concerned we fall in which category?

- Vikram Shriram:** We purchase all three categories, but a much lower amount of the last category which is rejected.
- HR Gala:** On sugar business, apart from distillery which decision you say you will take in next two to three months, you do not see any capacity expansion, etc?
- Vikram Shriram:** No, our work at this point of time is working with farmers for more cane development and enhancing our cane area, cane yields and recoveries by improving the quality of variety that we plant.
- HR Gala:** Sir by when do you expect the fertilizer subsidy to be realized, it's around Rs.300 crore if I am not wrong?
- J.K. Jain:** No, outstanding subsidy is Rs.760 crore out of which we have got in April about Rs.200 crore odd, but this also means the government has cleared outstanding only up till December right now.
- HR Gala:** Up to December 2015?
- J.K. Jain:** Correct, the balance figure outstanding is still pending.
- HR Gala:** As on 31st March, 2016, how much was subsidy outstanding?
- J.K. Jain:** Rs 760 crore.
- HR Gala:** For which Rs.200 crore you have received I April which clears position from December 2015?
- Ajay Shriram:** Yes, correct.
- HR Gala:** When will this direct benefit transfer start applying?
- Ajay Shriram:** See based on the policy, government is experimenting with it in one or two districts, the Krishna district they have taken up and a couple of more districts. We do not see it actually becoming effective across the board pan-India at least for the next two years, I do not see it happening till that time.
- HR Gala:** So till then we will have to live with higher working capital requirement?
- Ajay Shriram:** We will have to work with this and we will have to try to convince the government to increase allocation or we have to convince the government to increase the price to the farmer because urea price has not been increased for over 10 years.
- HR Gala:** Against this recoverable, do banks give money at some concessional rate? This money is due from the government as per the formula, do our bankers

give money against that working capital blocked up at some concessional rate?

Ajay Shriram: No, they do not.

Vikram Shriram: The government also does not give any interest on the delayed payment.

Moderator: Thank you. Our next question is from the line of Rohan Gupta from Emkay Global. Please proceed.

Rohan Gupta: Sir, we have seen that chemical business has seen increased profitability from Q3 and Q4, however it is explained in Chlor-Alkali because of the increase in realization but PVC segment has also seen almost Rs.10 crore incremental while there has been no increase in realization of PVC, have we benefitted by any cost efficiency in PVC or it's just a one-off which has just happened?

J.K. Jain: For the quarter, there have been cost economies also there has been a decision by Rajasthan government to withdraw the urban and water cess on power. As a result of this there was some provision write back that we have done till December.

Rohan Gupta: Okay. So the power cost actually which has gone up earlier because of the additional cess now it has come down.

J.K. Jain: Correct.

Rohan Gupta: So partial benefit is from the earlier provisioning but some benefit will also occur in subsequent quarters.

J.K. Jain: On the recurring basis.

Rohan Gupta: Recurring basis.

J.K. Jain: Correct.

Rohan Gupta: Okay. Sir, as you mentioned we are sitting on 23 lakh quintal of inventory with actual average cost at almost Rs. 2,800/qtl. With current prices at Rs. 3,400/qtl this would lead to profitability of almost Rs. 120 crore. If I assume even average realization going to remain there what will be the additional profit from power sir, if you can quantify that?

J.K. Jain: No, there is no power generation in the off-season.

Rohan Gupta: So for full year, I mean, going forward for the full year.

- J.K. Jain:** For the full year the whole profit will depend on what happens to sugar price in the new season and the cane price.
- Rohan Gupta:** Sir, I fully agree with you that sugar prices will be volatile, if I just assume Rs. 34 just for the assumption going to remain there for full year I was just looking at what additional we can get from power?
- J.K. Jain:** No, I was saying it would be wrong to work out because after the new season starts it will depend on what happens to the recovery and what happens to the cane prices. So don't add up and start saying that that would be the profit for the year.
- Rohan Gupta:** Sir, last year you had a sugar business loss of Rs. 68 crore while Rs. 85 crore you got of the previous year which was subsidiary related you got in current year, right?
- Ajay Shriram:** Right.
- Rohan Gupta:** So last year almost your sugar business made a Rs. 15 crore profit at EBIT level. Can you give us the contribution what was from power and what was from sugar?
- J.K. Jain:** In that way, power does give us about Rs. 25-30 crores EBITDA.
- Rohan Gupta:** Okay. EBIT.
- J.K. Jain:** No, I am giving EBITDA right now, I do not know depreciation separately and as CMD mentioned, we will be commissioning 18 megawatts extra power for the next season so that will further add to this profit.
- Rohan Gupta:** So this 18 megawatts, can give us another Rs. 15 crore on annual basis on EBITDA?
- J.K. Jain:** Should give little more because we are investing Rs. 120 crore for a return of about 25% or so.
- Rohan Gupta:** Sir, we have seen that North market was significantly affected in cotton seed and we have a larger presence in north and have highest market share there. Even I think last year farmers were affected significantly because of the white fly attack which has happened in the cotton seed. Two questions here; first, do we expect that north market in cotton acreages will come down, first. And second, you have talked about a 15% to 20% growth in cotton seed business so how you are planning to achieve that?
- J.K. Jain:** See there are two things; one, I do think it is not right to say we are now predominantly in North, as our volumes are equally divided between North and South now. As you are aware we had launched new hybrids in Central

& South which have done pretty well and which are picking up those are what we are seeing will contribute to the volume growth going forward. As far as North is concerned, the market does remain subdued, we are not seeing significant growth in volume over last year. But Central South seems to have positive sentiments overall also and also for our products which we are saying should add to the volume growth.

Rohan Gupta: Okay. So actually 15-20% growth you assume will be primarily driven by the Southern market?

J.K. Jain: Central and South.

Rohan Gupta: Central and South.

J.K. Jain: Maharashtra, Gujarat, Andhra, Telangana, and Karnataka.

Rohan Gupta: And sir, if I understand rightly that cotton seed prices were highest in north market at Rs. 1,000. Now with the new policy in place prices across the country will be at Rs. 800, so who is expected to take the brunt of this fall in realization whether company or the dealers or distributor?

J.K. Jain: See we know the trait value issue is still subjudice. Now if it is Rs. 49 then out of Rs 200 about Rs 150 is in the form of reduction of trait value. The balance the government has said you should reduce the trade discount. All manufacturers are working how to reduce the trade discounts so it will depend on how much we are able to reduce the trade discount. It is a little early to comment on that but yes, manufacturers are working, how do we work with lower trade margins.

Rohan Gupta: So sir, question arises that you are still saying that, there is still no clarity about the trait value, which has to be given to Monsanto. There is still no clarity from the government on that?

J.K. Jain: See government has said, it is Rs 49 but as you know it is going through legal cases. As of now there has been no stay on government orders so it stands Rs. 49.

Rohan Gupta: Okay. So sir, we may not be updated fully because in today's con-call only one of your competitors has mentioned that it is cleared and now trait value has already been fixed for the Monsanto at Rs. 49 and Monsanto is going to adhere with that, that has just happened today I mean on one of the competitors con-call.

J.K. Jain: So that is what we are saying, this is the status as on date, the government has fixed at Rs. 49 and there is no stay. However, Monsanto is in the High Court challenging that so unless the decision comes in it stays Rs. 49.

- Rohan Gupta:** And just last thing on the CAPEX. The distillery if you go through, I mean, if you go ahead with that proposal how much investment will it require sir?
- Ajay Shriram:** We are studying this because we have to decide on the capacities, we have to decide on the location, depending on which factory you want to look at, so we have not taken a view on that yet.
- Moderator:** Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please proceed.
- Tejas Sheth:** Sir, just wanted to understand, how would you ramp-up new Chlor Alkali capacity this year?
- Ajay Shriram:** As I mentioned, in Q1 FY 17 we expect to commission the electrolyzers in our expanded capacity at our Bharuch operations in Gujarat.
- Tejas Sheth:** Sir, I just wanted to understand the utilization rate, how you see the utilization rate?
- Ajay Shriram:** We will commission about 40%-45% of new capacity in Q1 FY 17 and the full power plant which is of 60-odd megawatts we expect to commission that in Q2 FY 17 and once that is commissioned we will come to full capacity of 500 tonnes a day.
- Tejas Sheth:** Do you see full utilization in H2? How do you see utilization of new capacity pan out?
- Ajay Shriram:** Yes, absolutely, once we commission the plant, we will run at full capacity.
- Tejas Sheth:** Do you see enough demand and sales happening for you?
- Ajay Shriram:** That is part of the management effort we have to run that fully, there is no question.
- Tejas Sheth:** So second question on PVC realization side, I thought the crude prices increase in Q4 would have led to our realizations going up but on Q-on-Q basis that is on quarter 3, I am not seeing much jump in the realizations.
- J.K. Jain:** So you are right, prices have gone up, in fact these touched in November-December a price of about Rs. 58000-59000 per ton. PVC prices, aligned with global prices have moved up to about Rs. 65000-66000 per ton now. So there is some 1-2 months lag vis-à-vis international prices but PVC prices have picked up from their lows in Q3.
- Tejas Sheth:** Okay. And are the current realizations that we are seeing?
- J.K. Jain:** About Rs. 64-65 right now.

- Tejas Sheth:** Rs. 64,000-65,000 we are seeing it.
- Ajay Shriram:** Yes.
- Moderator:** Thank you. Our next question is from the line of Aman Sonthalia, who is an Individual Investor. Please proceed.
- Aman Sonthalia:** Going by this drought situation in Maharashtra, Karnataka, Gujarat, in all these states, don't you think that next year production will come down significantly from here?
- Ajit Shriram:** See it is a little difficult to say at this point Aman. Frankly, a lot has dependent on the monsoons and sincerely after seeing two years of drought and the El Niño effect one really hopes that we able to get a good monsoon this year and that will actually determine the yield level in the farms.
- Aman Sonthalia:** But I think in most part of the Maharashtra and northern part of Karnataka the planting has been not done. So even if the monsoon is good, I do not think the production will increase because of that.
- Ajit Shriram:** The production would be perhaps lower than this year but to what extent it will be lower, it is difficult to say right now. Normally, ISMA does its satellite mapping on all India basis in the month of July. So after the July satellite results come then we will be able to get a much better idea on acreage.
- Aman Sonthalia:** Sir, day before yesterday, I was going through an article in Times of India where they have mentioned that in Gujarat the planning is just 3% of last year.
- Ajit Shriram:** That does not sound correct.
- Aman Sonthalia:** It was a very big article the Times of India -Ahmedabad edition it was, where it has been mentioned that only 70% of the land planting has been done -total planting including everything. And out of that most of the land has been diverted towards planting of fodder. So next year the sugar planting is very-very low and the headline was 3% and it has come in Times of India newspaper.
- J.K. Jain:** We would not be able to comment on that particular report but as you know Gujarat constitutes a very small part of overall sugar production, I think much will depend on what happens in Maharashtra, Karnataka and UP. You are right the area has gone down but what we are mentioning is that yields, etc., will depend on monsoon and that will have a big effect on what ultimate production is going to be which we would do in July-August.

Aman Sonthalia: Yes. But whatever initial reports are coming the production might come down below 20 Mn MT.

J.K. Jain: We would not be able to comment on that right now but it will be less.

Ajay Shriram: I think as of now, all are saying, it will come down from what has happened last year but we have not read anywhere that it will be below 20 million tonne. Our estimate is it will be between 23-24 Mn MT on an all India basis.

Aman Sonthalia: Okay. And next sir, I was discussing with some of the sugar industry people, since Marathwada and some part of Maharashtra is going through drought and the government in future also will not encourage sugar cane plantation there. So at least 15 lakh tonnes to 20 lakh tonnes will go out of the system and because of that the cyclical nature of the sugar industry will be not there anymore.

Ajay Shriram: No, the cyclical nature I think will always be there because of the weather patterns and the way the cycle is running in India. Regarding Maharashtra and Marathwada area well, we frankly are not being there, cannot comment on just that one area but you are right drought has had an effect. But I was reading somewhere else in the paper that actually the total planning of sugar cane in Maharashtra has gone up.

Aman Sonthalia: Sir, in Kolhapur area it has sir.

Ajay Shriram: The issue is that the farmers have got a very good return on sugar cane, no one can dispute that fact. Farmers are saying we will plant the cane and we may get money six months later or nine-month later, it does not matter we are assured of the money and we will get it. Our estimate is that on all India basis the production will about 23-24 million tonnes in the coming season. And that production is quite okay because we have a carry forward stock of 7.5 million tonne.

Aman Sonthalia: Just I want to make one point that the situation of overproduction will be no more there because in the past our consumption was 21 Mn MT, right now the consumption has increased to 26 Mn MT and in the next two years to three years I think it will be around 27 Mn MT. So this cyclical nature overproduction will be not there, this is what I mean to say sir.

Ajay Shriram: See the production will be cyclical in the sense that it will only be produced in North India between the months of November till about April so, that is going stay because of the cane crop. Our estimate is this coming year we will have a production of about 23 million tonne - 24 million tonne, we have a carry forward stock of over 7 million tonnes. So 24 million tonne plus 7 million tonne is 31 million tonnes and consumption is about 25.5 million tonne - 26 million tonne. We will in the next year have a carry

forward over 4.5 million tonnes - 5 million tonnes. So I do not think there could be shortage for the next two years.

Moderator: Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy. Please proceed.

Sudhir Bheda: Sir, just, I want to ask question on the land parcel which can be marketed over a period of time. So what can be the value of land parcel available with the company?

J.K. Jain: The book value is about Rs. 140 crore and these 60 land parcels are spread all over essentially, it is not one land parcel. Monetization of these will take little item may be 2-3 years as you know that there are very few transactions that are happening for land and also the fact that these properties are in rural area which is going through rural stress. So it may take a little longer.

Sudhir Bheda: Sir, are you thinking of any unlocking the investor value by demerging the company. The segments like farming, Chlor-Alkali and sugar are not related. So is there thinking on your mind at any point of time about demerging?

Ajay Shriram: Well, you know thoughts keep coming but we also feel that conglomerates have their own strengths, their own capability of supporting each other when the things are up or down. So we look at running the company in the same way as we have right now.

Moderator: Thank you. The next question is a follow-up question from the line of Dheeresh Pathak from Goldman Sachs. Please proceed.

Dheeresh Pathak: Sir, just want to understand the economics of caustic soda plant. You had mentioned that you are putting up Rs. 600 crore of CAPEX with 500 tonnes per day and 60 megawatts of power plant. Is this a Greenfield or Brownfield expansion?

Ajay Shriram: This is a Brownfield plant, we already have an operation in Bharuch in Gujarat where we manufacture, today about 450 tonnes a day of caustic soda with a 55 megawatt power plant that is already running and operational for the last almost 15 years. We commissioned it in 1995-1996 so it is running for a long time. We are now expanding this and putting up a Brownfield expansion in the same site with Rs. 600 crore investments.

Dheeresh Pathak: What project IRRs or return metrics did you have mind when you decided to commit Rs. 600 crore?

J.K. Jain: About 25% on an average.

- Dheeresh Pathak:** 25% project IRR or equity IRR?
- J.K. Jain:** No, I am talking about project ROI.
- Dheeresh Pathak:** Okay. And if capital has to be committed to a Greenfield caustic soda project of similar size instead of Rs. 600 crore how many multiples higher would the capital need to be?
- Ajay Shriram:** We have not done calculation but we do feel if you look at off the cuff may be 15-20% more will definitely come in because we have to build the entire infrastructure. And land cost is something which is open ended today, if you do not know where we located, if someone was to put up depending on the land cost and then the entire issue of fixed cost will also go up substantially because you have to start everything from scratch. So the economics will be very difficult from Greenfield and Brownfield.
- Dheeresh Pathak:** My whole point was that given current robustness in prices, how economical is it for capital to go into Greenfield caustic soda plant, is it economical? Is it not economical?
- Ajay Shriram:** To be honest with you, we have not done the calculation, so I do not think it will be fair for us to make any comments with having actually done the detailed calculation of what it would be like.
- Dheeresh Pathak:** Okay. So your Rs. 600 crore excludes land, right?
- Ajay Shriram:** Yes, absolutely.
- Dheeresh Pathak:** And how much land is needed typically for such scale of expansion?
- Ajay Shriram:** Our complex over there is about 100 acres out of which we have to keep 20-25% as a green belt so, we are building this on the balance plant and I do not know exactly how many acres have gone into this but we still have a lot of land to grow further in the future. So it is a Brownfield expansion next to our existing plants.
- Moderator:** We will move on to the next question, which is a follow-up from the line of Rohan Gupta from Emkay Global. Please proceed.
- Rohan Gupta:** Sir, I have I think missed out the number on the sugar production for the FY'16, if you can tell us again?
- J.K. Jain:** 32 lakh quintal.
- Rohan Gupta:** Okay, it was 32 lakh quintal, okay. And sir, what was this number in FY'15, last year?

- J.K. Jain:** As we said, sugar production has gone up by 3%.
- Rohan Gupta:** 3%, okay. And sir, inventory right now is 23 lakh quintal and what was the inventory in the starting of the year or previous year if you can just give that number?
- J.K. Jain:** It was 4.4 lakh less, so it was about 19 lakh quintal.
- Rohan Gupta:** Okay. And sir, the second question on this caustic soda, Chlor-Alkali realization, if you can give us the break-up of realization between caustic soda and chlorine what this ECU which is 26,000 right now?
- J.K. Jain:** We do not have it here right now Rohan.
- Ajay Shriram:** We just look at the ECU which we present to the Board and to everyone. We move on the ECU.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management of DCM Shriram for closing comments. Over to you.
- Ajay S. Shriram:** Thank you ladies and gentlemen. The diversified nature of our company helped us deliver strong performance in Financial Year 2016 despite the challenges faced by our agri-inputs businesses. Our cash generations are reasonable and will strengthen further after commissioning of new projects in financial year 2017. This should enable us to look forward to take more growth initiatives in the coming years. Our endeavor to use latest technologies and have best practices for our business operations will ensure our competitiveness and growth over the long-term. Thank you very much once again. Good bye.
- Moderator:** Thank you very much members of management. Ladies and gentlemen, on behalf of DCM Shriram Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.