



DCM Shriram Ltd.

Q1 FY16 Earnings Conference Call Transcript

August 17, 2015 (11.00 AM)

Moderator: Ladies and gentlemen good day and welcome to DCM Shriram Ltd's Q1 FY16 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal 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 of CDR India. Thank you and over to you sir.

Siddharth Rangnekar: Good morning and thank you for joining us on DCM Shriram Ltd's Q1 and 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 the opening remarks from the Management following which we will have an interactive question-and-answer session. Before we begin, please note that some of the statements made in this conference call may be forward-looking in nature and a note to that effect was included in the conference call invite sent to you earlier.

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the company's operations for the quarter ended June 30th, 2015 and the opportunities going forward. Over to you, Sir.

Ajay Shriram: Thank you Siddharth. Good morning ladies and gentlemen and welcome to the Earnings Conference Call for the first quarter ended June 30th, 2015. Unfortunately, our last concall planned on the 10th of August had to be stopped in the middle due to the telecom connectivity issues, sorry for that inconvenience.

I will take this opportunity today to share with you our perspectives on the company's performance, following which Ajit will take you through the financial highlights of the company for the first quarter of financial year 2016.

During the first quarter, the company reported satisfactory financial performance despite challenging external environment supported by the diversified and integrated nature of our businesses. The Chloro-Vinyl business reported improvements in performance over Q4 '15. However, the Sugar business recorded sharp reduction in selling prices of Sugar as well as molasses. We had heavy losses in the Sugar business.

The prices of Chloro-Vinyl and PVC Resin have been improving since February 2015 after hitting lows in December 2014/January 2015. Average for Q1 '16 has been about 6-8% better than the previous quarter. Prices of Chlor-Alkali continued to be stable. However, PVC prices have softened in line with global prices. The company continues to focus on achieving cost economies. The prices of key inputs are recording mixed trends whereas prices of imported coal and salt have declined; the cost of domestic coal has gone up. New levies on coal and power including renewable power obligations are resulting in increased power costs, the key cost element in this industry. With no significant domestic capacity addition this year, the performance of this business will depend on the international price movements.

Sugar prices have come down from about Rs. 3,300/Qtl in April 2014 to about 2,250/Qtl in July 2015. The prices have seen some reversal over the last fortnight. The decline has been steep post March 2015 when it became clear that the industry will have a production of 27-28 million MT of Sugar. Sugar had a -ve margin of Rs. 800/Qtl at July prices. With forecast of high production next season and inadequate exports the outlook is very grim. Policy action by the governments has been inadequate, delayed and ad hoc hence their impact on the industry has been insignificant. Without adequate and timely policy response from the Central and State governments it will be extremely difficult to start crushing for the next season. The revenue sharing formula to link sugarcane price to sugar prices as recommended by the Dr. Rangarajan Committee is an absolute must for the long-term sustainability of the industry as well as the farmer.

The UP government has started processing the cash subsidy on cane of Rs. 8.6/Qtl for the Sugar Season 2014-2015. It still has to notify the cash subsidy of Rs. 20/Qtl of sugarcane.

As you all are aware, the country has experienced very erratic monsoon for the second year running. Some part of South, Central and North India have had high rain deficit. This coupled with financial stress in Agri sector and disruption in Govt. Agri schemes due to change in funding pattern between Centre and States has adversely affected the entire Agri Inputs sector. Cotton and corn are the worst affected sectors and have seen drop in area this year. As a result, our Bioseed and Shriram Farm Solutions Value Added inputs businesses have experienced lower sales in Kharif '15 so far. We are taking all the steps to expand product portfolio and strengthen our marketing efforts to partly mitigate these adverse effects and sustain growth over the medium term.

The international geographies have also experienced adverse weather patterns which hampered our efforts to build volumes in these territories. As mentioned in our last call, Vietnam has approved introduction of GM Corn. We are taking steps to launch the same in the next 12-18 months.

The Urea business witnessed an extended maintenance shutdown in Q1 FY '16 that impacted the sales volume and revenues during the quarter. The shutdown also led to lower earnings vis-à-vis last year. The new urea policy that came into effect from June 1st, 2015, has further tightened the energy efficiency norms which have reduced the company's operating margins further. We will continue to work towards improving energy efficiencies in the business.

The cement business continued to get impacted due to weak demand in the domestic market, which led to substantially lower realizations that weighed on the revenue and earnings of the business.

Fenesta Windows performance is improving as per plan. In Q1 FY '16 the business operations achieved PBT positive on the back of higher sales volumes during the quarter. 'Retail' segment in particular has gained strong traction over the last few quarters. The project segment has also seen some revival leading to growth in the order bookings. However, the billing, which is a reflection of project execution, is yet to start growing.

The Chlor-Alkali capacity expansion and Sugar Co-gen expansion are progressing on schedule and are planned to be commissioned by September-October 2016. Once commissioned these projects will add value to the Company. We expect our Bioseed, Farm Solutions and Fenesta businesses to witness good growth over the medium term.

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

Ajit Shriram: Good morning ladies and gentlemen, I will now summarize the financial results for Q1 FY'16. Total revenues for the quarter went up by 6% to Rs. 1,806 crores compared to 1,704 crores last year primarily due to higher volumes of bulk fertilizers during the quarter. PBDIT stood at Rs. 191 crores versus Rs. 269 crores in Q1 FY'15. Net Profit stood at Rs. 123 crores compared to Rs. 177 crores in the corresponding quarter last year.

Let me now take you through our business-wise performance.

Sugar business' revenue increased by 8.7% YoY to Rs. 305 crores due to higher sales volumes during the quarter. Realizations that stood 20% lower vis-à-vis last year moderated increase in revenue during the quarter. Sugar business reported -ve PBIT of Rs. 16 crores vis-à-vis positive PBIT of Rs. 8 crores last year. Sharp drop in prices in June/July resulted in additional inventory losses totaling Rs. 40 crores during the quarter that led to the operating losses for the business. The margins declined to roughly -ve Rs. 800/Qtl. In Q1 FY'16 the business accounted for Rs. 8.6/Qtl of cash cane subsidy amounting to Rs. 25.7 crores and the reduction in society commission for Sugar Year 2012-2013 amounting to Rs. 12.8 crores.

Revenues from the Bioseed business during the quarter stood at Rs. 365 crores down 7.5% YoY and PBIT at Rs. 84 crores versus Rs. 95 crores last year. Lower revenue and earnings during the quarter was primarily due to lower volumes of BT Cotton and Corn. The reduction in BT Cotton seed prices by Govt. of Maharashtra in spite of increase in production costs, further impacted the margins. The international businesses also recorded lower volumes due to adverse weather.

Chloro-Vinyl's revenues in Q1 stood at Rs. 316 crores vs. Rs. 359 crores last year. Decline in revenue was in account of lower sales of PVC Resins a result of higher opening stock and hence higher sales last year. PBIT stood at Rs. 94 crores versus Rs. 113 crores in the same period last year. Sequentially it was better than the PBIT in Q4 FY15, which stood at Rs. 72 crores. Lower realizations of PVC Resins and Chlor-Alkali products vis-à-vis last year also contributed to revenue and earnings decline during the quarter. The earnings were further impacted by higher power costs on account of recent levy and duties imposed by the Central and State Govt's.

The Farms Solutions business' revenue went up by 36% YoY to Rs. 610 crores, primarily due to higher sales of bulk fertilizers during the quarter. Revenue of Value Added inputs vertical stood lower by 9%. Overall performance was stable with PBIT marginally higher at Rs. 22 crores versus Rs. 21 crores last year. Subsidy outstanding continues to be high at Rs. 267 crores.

Urea business' revenue stood down by 8% YoY to Rs. 156 crores due to lower volumes, which were down 15%. Earnings were negative. Extended shutdown led to lower volumes and lower average energy efficiencies. Under the New Urea Policy, effective from 1 June 2015, energy efficiency norms have been revised, which also impacted the earnings. Subsidy outstanding remained high during the quarter with outstanding of Rs. 287 crores at end of June 2015.

Cement business' realizations declined 20% YoY due to sluggish demand, which led to a 10% YoY fall in revenue to Rs. 33.2 crores. Lower revenue and higher energy costs impacted earnings of the business during the quarter.

Fenesta business' financial performance improved substantially in Q1 FY'16 led by higher volumes in the 'Retail' segment, which grew 38% YoY. The order booking went up by 60% with project booking going up significantly. Top-line increased by 18% YoY to Rs. 48.4 crores. The business has been PBT positive for two consecutive quarters.

The company's finance cost for the quarter declined by 7.4% YoY to Rs. 26 crores. Gross Debt stood at Rs. 784 crores as compared to Rs. 760 crores in March 2015. Net Debt stood at Rs. 696 crores vs. 688 crores in March 2015. This is despite the high subsidy outstanding of total Rs. 554 crores and Sugar inventory of 263 crores.

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

Moderator: Ladies and Gentlemen. We will now begin the question and answer session. Our first question is from the line of Abhijeet Akella of IIFL. Please go ahead.

Abhijeet Akella: Sir, there has been a representation by a few Cotton Seed companies to Monsanto to cut the royalty that is charged for the BT Cotton seed. So just wanted to check whether DCM Shriram is one of them and also whether you have changed the royalty rate that you record in your books?

Ajay Shriram: We are not one of those companies that have made representation to Monsanto.

J. K. Jain: We are accounting for on old basis. As and when any revision is finalized, it will be accounted for in that particular period. As of now, the contract obligation stands so we have accounted for on that basis.

Abhijeet Akella: Do you have any expectations of by when there can be some clarity on this issue?

J. K. Jain: Difficult to say in commercial dealings, I am sure everyone is discussing with them because the industry has had a tough period so we all decide how to share that issue but nothing has been finalized as yet.

Abhijeet Akella: Has the price cut in Maharashtra affected your margins?

J. K. Jain: Yes.

Abhijeet Akella: Is there a possibility of a similar thing happening next year in AP and Telangana also?

J. K. Jain: Govt. has the power to impose such orders and you can never predict what Govts. will do. Telangana had tried earlier but the courts had ruled against them and the case is going on in the High Court of Telangana.

Abhijeet Akella: What are the key reasons for the decrease in acreages and market size of corn and hybrid paddy this year? How do you think the outlook for that looks from next year onwards?

J. K. Jain: Corn is facing tough situation since last year. Even last year if you remember corn area had gone down. I think partly it is a response to the lower corn prices and partly due to monsoon. The other trend, which is happening, is that because of the monsoon and financial stress people are shifting more to varietal corn than hybrid corn. The third issue which is impacting corn is the confusion with respect to Govt. schemes. Since there is going to be a restructuring of the funding pattern of government scheme, no government has come out with the subsidy schemes for seeds this year, so that is also affecting the hybrid market.

Abhijeet Akella: Is there any clarity when these issues can be resolved?

J. K. Jain: No you cannot have any clarity for the weather related issues. For the funding part, one does hope that the State Govt's should be able to now formalize their schemes for the next season.

Abhijeet Akella: On the International business, we have been seeing some pressure on performance for quite a few quarters. What exactly are the challenges and what is your strategy to get around these issues?

J. K. Jain: As we have said earlier, it does take time to build volumes in these businesses and we have said earlier also that we expect it to take at least 2-3 years before we can gain reasonable volumes. These territories also continue to face weather challenges. This year also they have had tough weather in the first season. The positive thing is that Vietnam has approved GM seed and we are working with Monsanto to get the license and hope to launch GM seed in the next 12-18 months. So that should provide a push to the volumes. We do not expect earnings of International business to be positive at least over the next two years.

Abhijeet Akella: On the Sugar business, the Govt. has been trying to improve the health of the sector. Do you see any tangible benefits accruing to the sector from any of the recent measures or is linkage of cane cost with the sugar price a must for a lasting solution to the sector's crisis?

Ajit Shriram: I think the linking of cane price to sugar price is the key. We do hope that the exports of 4 Mn MT, which have been envisaged happens because we have to reduce the inventory in our country. So we do really hope that there is some move towards linking cane price to sugar price.

Moderator: Thank you. Our next question is from Balwindar Singh of B&K Securities. Please go ahead.

Balvinder Singh: Just wanted to understand, which Organization or set of companies have appealed to Monsanto Mahyco for the reduction in Royalty for BT Cotton?

J. K. Jain: We are not very sure of which all companies have appealed for the Royalty cut.

Ajay Shriram: We don't have the details of the names but there are five to seven companies who got in touch with Mahyco as we understand it.

Balvinder Singh: So these are primarily South India companies or any North India companies are also there. not specifically referring to any name of any companies?

J. K. Jain: We are not very sure about that as of now.

Balvinder Singh: So as of now, have we fully accounted for the royalty?

J. K. Jain: We have accounted for full contracted rate. And if there is any new arrangement worked out, it will be accounted for in that period.

Balvinder Singh: In the past also were there instances of Royalty cut or is this the first instance?

J. K. Jain: It had happened earlier also when the Govt. had fixed the prices at the first stage. Prior to that the royalty rates were high and after the prices were fixed, a new set of rates were worked out mutually. So it has happened in the past.

Balvinder Singh: Sir, every year State Govts. set a seed price in Maharashtra or Andhra, Telangana and they also set a reference royalty rate which is not binding on any of the companies. Previously also companies were paying the contracted royalty but this year they are not willing to pay?

Ajay Shriram: As you are aware and the earlier gentleman said that the Maharashtra government has reduced the price. Now what happened is that with the reduction in price and with the cost of production going up, there is logic in terms of requesting for the reduction in the royalty. That is a commercial decision, which is going on with some companies and Monsanto. But there is a squeeze on margins that's the reality of the outcome.

Moderator: Thank you. Our next question is from Gagan Thareja of Comgest India. Please go ahead.

Gagan Thareja: Sir, globally the inventories of cotton are pretty high. The inventory levels while possibly lesser than a year ago but on a five-year period are still very high. Given this situation and possibly therefore a downward pressure on cotton prices globally, do you see this impacting the cotton acreages in India over the next 2-3 years?

J. K. Jain: It is difficult to say for the next 2-3 years basis because it doesn't depend only on cotton prices, it also depends on the prices of competing crops. I think the other part is that in India at least the cotton prices have seen some revival in the last 3-4 months, so it has bounced back a little bit. Third as we see it, the acreage drop has happened more because of weather challenges than because of comparative economics. So if weather remains okay then I think cotton acreage shouldn't go down.

Gagan Thareja: In terms of the profit that a farmer can yield per hectare, cotton is still probably more lucrative than the substitutes that the farmer might have in terms of haltering his acreages?

J. K. Jain: It varies quite a bit because I am told this time soybean and pulses have done better but then the area which can shift to those crops is limited, it can't be very large. So I would say that weather will still continue to be the major influencing factor.

Gagan Thareja: And on GM seeds, you indicated that you hope to be able to get into the market over the next 12 to 18 months. Is there any development on the regulatory aspect or on the development aspect vis-à-vis Monsanto that maybe you could put some light?

J. K. Jain: See one is the GM seeds being approved. So on that front Vietnam government has approved the GM trait of Monsanto already. We are in the process of concluding the agreement with Monsanto for licensing of that trait which we expect should happen in a month or so. Then we have to do a trial of our seeds for about 12 months. That's why we are saying we are confident of launching our hybrid into it to 18 months in Vietnam.

Gagan Thareja: Excuse my lack of knowledge here but when you sort of come to an agreement of launching on hybrids, every time you put seed inventory into the market do you have to take recourse to Monsanto straight or is the trait taken initially suffices to build your inventories year-on-year subsequently?

J. K. Jain: It's a continuous marrying of the traits and hybrid which happens in the parent seed and that is a continuous process which goes on.

Moderator: Thank you. Our next question is from Balvinder Singh of B&K Securities. Please go ahead.

Balvinder Singh: What were your Cotton seed volumes this year and what could be the industry size this year?

J. K. Jain: Our cottonseed volume for Kharif 15, should be about 36-37 lakh packet vis-à-vis 44 lakh packets that we sold last year. So we will have a drop of about 14%-15% compared to last year. Its too early to accurately estimate industry size but there is a sense that the market has declined by 15%-20% over last year to about 4.3-4.4 crore packets.

Moderator: Thank you. Our next question is from Chintan Seth from SKS Capital & Research. Please go ahead

Chintan Seth: You did mention about the urea business wherein due to the new policy you are facing energy-related compliance which will impact your margins. Can you provide some details on this?

Ajay Shriram: Under the New Urea Policy the energy consumption norms have been tightened. As ours plant is over 30 years old there is a capital investment required to improve the energy efficiency level. About a year ago we had already undertaken a major step in terms of increasing the energy efficiency and reducing our energy consumption, which is under implementation and is expected to be implemented by December this year. That will help us in reducing energy consumption. Under the New Urea Policy, the energy norms will further get tightened post 2018-19. So we are looking at various proposals for increasing our energy efficiency. It is an ongoing exercise and this is something, which we knew was coming on the line so we have already initiated the steps to reduce the energy consumption.

Chintan Seth: Was our maintenance shutdown in Q1 FY 16 primarily related to this?

Ajay Shriram: No, actually what happens is that all fertilizer plants, every 18 months to 2 years; take a shut down between 20-25 days to actually change the catalyst and revisit the reformer and inspect the tubes and so many other maintenance steps. This is a regular exercise done by all urea plants. So we did the same thing and what we have started doing is that we actually have it on the last 10 days of one financial year and the first 10 days of a next financial year. So that is divided over two financial years rather than one financial year. So we had that this year, end of March to about 10-12th April. That is a full-fledged maintenance shutdown for various jobs across the board, including looking at energy efficiency steps being taken.

Chintan Seth: What will be the CAPEX we are spending on improving our energy efficiency, for this policy and for the next policy?

Ajay Shriram: In this particular project we've invested about Rs. 12 crores wherein we are improving the efficiency and the further ones are on the drawing board. We have not yet crystallized how much it is going to be. But it will be in the range of about Rs. 12-14 crores a year.

Chintan Seth: If I broadly put your businesses, most of the businesses except for Fenesta and Chloro-Vinyl, are Regulated in nature. For sugar especially we are talking about linkages since this Rangarajan committee report came out in 2011-12 and urea policy again we are facing requirement of improving the energy efficiency. In seeds we are facing this price cap. This all has a spill-on impact on your businesses and ~ 63% of your revenue came from Agri-related

businesses. So how are we planning to grow our non-regulated businesses? Can you just provide insights into your strategy going forward?

Ajay Shriram: This is a good question, we've debated it also. We found that basically two of our businesses are very government linked. One is the Sugar business and the second is the Fertilizer business. Now in Bioseeds and Shriram Farm Solutions, the capping of the price of cotton that is something which has happened in the last few years but there are large range of products within our seeds business which are not coming under any capping which is our vegetable seeds or large variety of other seeds which are also there.

I would also like to mention that all our other businesses Chloro-Vinyl, Fenesta, Farm Solutions - they are not linked to government in any way except Fertilizers and Sugar and Seeds now.

In sugar for the last 5-7 years because of the state government and the central government's policies, the industry has been in deep trouble. In the last two years industry has put in lot of effort to get the Rangarajan Committee to, they have made presentation, Indian Sugar Mill Association did that, CII did that to really highlight the issues and to look for a long-term solution and we really appreciate that the government came out with Rangarajan Committee formula.

Now in the last two years if we see there has been more stress because of an additional production but the good thing is also that certain states are now looking at the Rangarajan Committee and trying to link sugar price and sugarcane price. We have reached rock bottom. The farmers arrears are unprecedented. This has now got the attention of the Prime Minister downwards to see how do we find solutions and we hope in the next few years the center and the states will both take up issues and policies to find the solutions for the long-term, so that farmers don't lose out as much as they have lost in the last two years.

It has been unprecedented where farmers' outstanding are there for 2 years running and if the same policy continues at the close of the next season, the outstanding to farmers could be in the range of Rs. 30,000-35,000 crores all India. So some change has to happen staggering of payments, increase of sugar price, exports of sugar, ethanol has to come in and a very big way and I think government is looking at all these. So I think sugar to a degree though we are under tremendous stress but it is under the active consideration of Govt., Industry, Policy Makers, State Govts and we hope something will move over the next few years.

Chintan Seth: Still two years away?

Ajay Shriram: Yes it is a policy change, this has to happen in 10 different states, it has to be a major issue with the Center, and we have to find a balance between the farmer, the industry, and the consumer. Ultimately at the end of the day one can't have a high sugarcane price, a low sugar price, and viable industry, it can't work.

Chintan Seth: At current prices, the realizations are multi-year low and we are sitting on a huge inventory as of now. We need to first of all get rid of the 4 Mn Mt of additional sugarcane which we talked about. As soon as it happens it will support the sugar prices, right? But given the low global sugar prices, the exports from India might still not be competitive.

Ajay Shriram: Commodity prices worldwide in all commodities are low. The situation is, government is already giving subsidies for exports. We are in active dialogue with the government to see how to make sure that 4 million tons of sugar goes out. The issue of barter system with other countries has come up on discussion for the first time so major new thinking is going on. Sugar industry has come to such a rock bottom situation that it has shaken up every one. There is a view now to find a solution with everyone involved and to ensure long-term stability because there are 5 crores farming families involved in sugarcane growing. On the other side is 125 crore Indian consumers who consume sugar. There is an industry. There is a Govt. So, we have to find some viable way to make it balanced for everyone.

On the Urea side the Govt. discussions are on. They are looking at how to improve efficiencies. We have taken up very industry concerns very actively, that has helped in introduction of the NBS policy for potash and for phosphoric fertilizers. Similar policy is required for Urea as well. Urea today is so underpriced compared to the international price or with the price of P&K that the consumption of urea and PK should be 4:2:1 is running the range of 14:4:1. So the soil health is getting depleted. Productivity is going down. It is having a long-term negative impact by very high consumption of urea. So we have discussed to the government, please fund the balance of this. Please, bring in the pricing formula same as PNK for urea too and let us hope down the line something comes out. In our portfolio it is these two and cotton seeds which is the problem. With this dialog going on everywhere on the seeds front of it, the dialog with the State Govts. in certain cases we are in court. So, let us hope something coming out but that is given in the economy of India.

Moderator: Thank you. Our next question is from Rajesh Zawar of Motilal Oswal Securities. Please go ahead.

Rajesh Zawar: Sir, when do we expect expanded Chlor Alkali capacity to start operations and how much time would it take to ramp? Second, what is the progress in our JV with Axiall and what are the opportunities going forward? Third question is related to the fact that we are witnessing a significant consolidation in the Chlor Alkali industry. Where do you see yourself in the next 2-3 years in this business?

Ajay Shriram: Our current overall Chlor Alkali capacity is 750 TPD and we are expanding it to 1250 TPD by increasing capacity of our Bharuch, Gujarat facility. Capacity of the Bharuch plant will go up from current 450 TPD to over 900 TPD. The expansion in capacity is along with the setting up of a captive power plant. We have placed equipment orders for the same and we are expecting to commission the new capacity at the Bharuch plant by about September 2016. So that is moving as per schedule. In Chlor Alkali even today we are #3 in the country. I think the way it is going we will be between #2 and #3 in the country in another year's time. So we are well-positioned in that space and being located on the coast places us well for importing coal, which gives us a cost advantage as well. So I think in that way our Chlor Alkali business is well positioned.

Regarding the JV with Axiall – it is moving really well. We have had good discussions with Axiall on the way forward during the Board meeting of the JV in Atlanta, USA. We have a team of their people coming again in October this year. We have another team coming in January next year. So they are actively involved. We are seeing that the introduction of new products is

moving at a good pace. Chlorinated PVC (CPVC), which is product we were not in until we got in the JV, is being introduced in the Indian market. Axiall has a very solid product and customer base worldwide, which is now being introduced to the Indian market and down the line will go outside India also through the JV. So, JV is progressing well. I think the interest of Axiall is very high. Our collaborative working is moving well. New product introductions are moving well, the turnover is going up, and the bottom-line is improving. So I think it is structured plan of how to actually build the foundation on a very strong basis so that as the expansion and growth happens, we are a market leader in India on Engineered PVC Compounds for various different application. So I think it is moving well.

Rajesh Zawar: Okay. Sir, what kind of investments do you envisage in the JV and what is the addressable market size that you are targeting? In terms of plans how do we start seeing them on ground? When would we start seeing them reflecting into our numbers or in our business as such?

J. K. Jain: See this is not a capital intensive business. It is more a knowledge intensive business. The overall industry growth is linked to PVC growth because what we are compounding or converting into engineered plastic is the PVC only. PVC, I understand is growing anywhere between 8%-10% per annum in the country and therefore, this industry will also keep growing at least at that rate. So I think we are expecting good growth going forward and as we launch new products the growth will become significant. Like any knowledge intensive business, it takes a couple of year before it starts showing result on the ground.

Rajesh Zawar: On Chlor Alkali part, from an industry perspective are we seeing that more or less now the minimum size or a threshold has increased to around 1,000 TPD keeping in view the consolidation that is happening in the industry?

Ajay Shriram: Not really I think there are many plants which are smaller than that and they are operating. It is a commodity business I think the important point is having a cost of production competitive and today's world we have to be competitive cost wise on a world scale not only India scale because the import duties are very low and competition is from all over the world. The challenge here is energy cost can be higher so that is something we have to continuously tackle in terms of seeing the efficiency of the plant and how do we source energy at a low cost because 65% of the cost of Chlor Alkali is power cost. So I think with that we are working aggressively. I think there are many plants who are working on improving their efficiency. So I do not think there is minimum threshold as yet, though of course as you have a larger scale your cost of production comes down because fixed cost gets divided over a larger base so, one has that advantage. But I think looking at the economy and if the economy grows are 9%-10% two-three years down the line, the demand for these products will also grow well. So, I think everyone is looking at it a little long-term.

Moderator: Thank you. Our next question is from Rohan Gupta of Emkay Global. Please go ahead.

Rohan Gupta: Sir, of the total 36 lac packets sold in Kharif 2015, what will be the break up in terms of North and Other markets?

J. K. Jain: Broadly, North will be about 17-18 lac packets and the rest is from Central and South. Last year North sales stood at 23 lac packets.

Rohan Gupta: Sir, if I understand rightly that there has been not much reduction in acreages in cotton in North so, have we lost market share in those markets?

J. K. Jain: See there are three reasons why the market size is gone down in North – one is there has been reduction in acreage, which is about 8% to 10%. The other thing which had happened last time was that there was resowing which had happened in the substantial area because of the weather pattern which has not happened this year. Also this time more area has gone in the desi cotton compare to last year because of the weather pattern again. Therefore the market for hybrid has gone down and I think all the industry estimates are saying that market has gone down by anywhere between 20% to 25% in North.

Rohan Gupta: Okay. So we have not lost much market share in North.

J. K. Jain: Marginally it is possible but not significant.

Rohan Gupta: And in non-North markets are sales flat compared to last year?

J. K. Jain: Yes, we are almost flat marginally lower very marginally. We are a smaller player there compared to market size.

Rohan Gupta: Okay. Sir, you have also sold significant amount in Maharashtra market?

J. K. Jain: I would not have the state wise numbers right now. But our share in Maharashtra is relatively small. We sell more in Karnataka and Telangana.

Rohan Gupta: Okay. So we have also reduced the prices in Maharashtra whatever volume we would have sold right?

J. K. Jain: Yes.

Rohan Gupta: Sir, given that almost 20% sort of volume decline our profitability has not gone that much so actually on flipside in Bioseed we have improved our margins a little bit from 24% to 26%. So given even the cotton seed prices were weak, so what is the contributing factor for this improvement in margin?

J. K. Jain: See one is the relative mix of the crop because cotton has lower margin compared to corn and paddy and so since cotton turnover has gone down more than the other crops there is mix which is causing this particular thing. And second is control on expenses, essentially.

Rohan Gupta: Okay. So other crops like corn and all are more profitable for you but they have also seen almost similar degrowth, right in terms of volume?

J. K. Jain: Not similar, that is why I am saying the relative ratio of cotton in the overall turnover has gone down.

Rohan Gupta: Sir, in Sugar business you have taken a partial subsidy booking in the first quarter. When you are likely to take the balance amount in booking?

J. K. Jain: See we have said in our release what government has notified is only a Rs. 8.60/Qtl that is what we have accounted for as and when the balance gets notified we will account for the balance also.

Rohan Gupta: So it has yet not been notified?

J. K. Jain: It has not been notified as yet. We expect notification to happen in second quarter but we will account for it as and when it is notified.

Rohan Gupta: Sir in fertilizer segment, definitely, it was also affected because of the lower production and maintenance shutdown but due to revised energy norms also it has been affected. So what would be annual impact if you can just give some number that only because of revised energy impact compared to last year?

Ajay Shriram: It is about I think Rs. 8-10 crores a year.

Rohan Gupta: So like last year if we were almost Rs. 37-40 crores profitability so, Rs. 10 can be wiped out because of that?

Ajay Shriram: It could be but we are working also improving efficiency norms and other side there is **big** outstanding that also has an impact in terms of our bottom-line because of interest. So it is an overall package yes, but we are working on improving efficiencies simultaneously.

Rohan Gupta: Okay. Sir, I believe that we have done higher trading in the current quarter. If you can give us that how non-Fertilizer business or value-added product portfolio has done in the current quarter?

J. K. Jain: See we have done trading of bulk fertilizers, you are right. As far as value-added part is concerned the turnover has gone down by about 7% to 10%.

Rohan Gupta: And so as the margins also impacted or it has remained stable?

J. K. Jain: The PBDIT has gone down prorata.

Rohan Gupta: Sir we have seen that there is too much government control coming in the seed and I mean there is a debate also going on Monsanto on a reduction and the royalty. So do you see that the Seed business is definitely now moving in the direction where government will keep on controlling the prices as it has been doing in Fertilizer business and it will slowly become a controlled business so, going forward maybe not near-term?

Ajay Shriram: Well you know if we look at it at a macro level, we do not think it will go that way. The issue which has come up in the two years is because of the weak monsoon. I think the government has tried to get involved and trying to improve or help the farmer so that is why

there is a bit of pressure on that side and we do not think it is going to come into all seeds products across the board.

Rohan Gupta: So helping the farmer from the government's own pocket is understood that there will be higher subsidies but here if you are giving a mandate to all the companies to reduce the prices straight away Rs. 100 and sell at that price. So that is a sort of control only.

J. K. Jain: See just to add to this, legally only for Cotton there was a small window which state government utilized to gain power to fix the prices of the seeds. For other seeds the state government do not have the power to fix prices under these statute. Even for cotton wherever the states had enacted the act during that window when it was open they have the power but otherwise the balance states do not have the power to fix the seed price.

Rohan Gupta: So it is only Maharashtra government which has power to fix the seed prices?

J. K. Jain: Maharashtra, Telangana have formulated the act and even Punjab had formulated the act so, these are the states, which have the power to decide the prices. But for no other crop the state government have the power to fix prices under the present statute. Central Government of course can always fix the prices but so far central government has kept itself away from seed primarily because it is felt that in seeds we need to promote research and launch of new products for promoting agriculture so, therefore central government has kept away. It would not extend to other crop.

Rohan Gupta: Sir, one of your other competitor was mentioning that they have control on each and every cost of cotton production especially cotton seed production and in that way they can even control the royalty. So does that not that make a very strong case for the Govt. and they will be successfully able to reduce the royalty component?

J. K. Jain: See this matter is under court. Courts have to take a view. I think Telangana is still to discuss that particular issue. The matter is in Telangana High Court which has to take a view whether contract should prevail or government should be able to fix the prices of every component of cost. So I think it will depend on judicial outcome.

Moderator: Thank you. Our next question is from Dixit Mittal of Subhkam Ventures'. Please go ahead.

Dixit Mittal: Sir, how big China is in Chloro-Vinyl business and will the Yuan depreciation have any impact in terms of commodity price?

Ajay Shriram: I think China is an exporter, but in the last year or two government has moved towards increasing their energy cost and working towards solution control, etc. So their cost had gone up marginally. But yes, you are right I think with the depreciation of the Yuan I think in all products they have a better position to export. It is too early just now because we have not seen any direct impact to that in the Indian market. But yes, that is something down the line which is going to affect all products in India not only caustic soda chlorine, but the across the board.

Dixit Mittal: Okay. Sir, currently how much are we importing from China?

J. K. Jain: As a county we are importing almost 15%-20% of our requirement from various countries.

Moderator: Thank you. Our next question is from Jigar Walia of OHM Group. Please go ahead.

Jigar Walia: Sir, I just have on follow-up. If you can give some color on nature of these commercial arrangements with the technology trait provider Monsanto in this case. Is it state-by-state, year-by-year or is it more long-term one-off?

J. K. Jain: The licensing is long-term. The rates are fixed, but as an agreement it does not provide a yearly fixation of rate. But as I said in the past that whenever there was an issue that industry faced though position the participants were able to sit and discussed what is the fair arrangement. But in the commercial spirit developing a fair agreement should prevail.

Jigar Walia: Perfect. So there is no specific rate or tenure which is fixed for any period or any region?

J. K. Jain: No.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you, sir.

Ajay Shriram: Thank you. Ladies and Gentlemen, thank you for attending our Q1 FY'16 Earnings Conference Call. We believe that our diversified and integrated business model helps us in recording satisfactory overall performance despite challenges from the external environment in individual businesses. Our balance sheet remained robust with comfortable debt levels and reasonable cash flows. We are glad that our growth plans are on track and will ensure sustainable growth of the company over the medium-term. Thank you very much once again. Good bye.

Moderator: Thank you. Ladies and gentlemen on behalf of DCM Shriram Limited, that concludes this conference. Thank you for joining us and you may now