



DCM Shriram Consolidated Limited
Q2 & H1 FY2011 – Earnings Conference Call Transcript
November 2, 2010 at 4:00 pm IST

Moderator: Ladies and gentlemen, good afternoon and welcome to the DCM Shriram Consolidated Q2 and H1 FY'11 Earnings. As a reminder for the duration of this conference, all participants' lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ishan Selarka of Citigate Dewe Rogerson. Thank you and over to you Sir.

Ishan Selarka: Thank you Farah. Good afternoon everyone. Welcome and thank you for joining us on DSCCL Q2 and H1 FY'11 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. Rajiv Sinha, Deputy Managing Director, Mr. Ajit S Shriram, Director Sugar and Mr. J.K. Jain CFO of the Company. Please note that some of the statements being made in this call may be forward looking and a note to that effect was sent out to you earlier. We will begin this conference call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram following which we will have an interactive question and answer session. I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's operation during the quarter and the opportunities going forward. Over to you, Sir.

Ajay Shriram: Thank you Ishan. Good afternoon, ladies and gentlemen, and a very warm welcome to DCM Shriram Consolidated Limited Q2 and H1 FY 2011 conference call. This quarter has been one of the toughest for the Company. All our businesses, with the exception of agri-inputs vertical, experienced adverse business environment. The merchant power selling prices as depicted on the power exchange fell from ₹ 5.30 per unit in Q1 financial year 2011 to approximately ₹ 2.34 per unit in the month of September 2010, which is below the cost of production in our Company. The sugar business continued to record negative margins representing a sharp swing from a positive margin of ₹ 584 per quintal to a negative margin of ₹ 464 per quintal. Cement prices also dropped sharply and continued to be under pressure. All this led to the Company recording a net loss in Q2 FY 2011 and Half Year financial year 2011.

We expect the worst is over and the Company should see better performance in the coming quarters. In the Chloro-Vinyl business, using our swing capability, we have moved to production of our downstream products, Chlor-Alkali and PVC, where volume is growing and will stabilize in Q3 financial year 2011 to achieve a healthy contribution per unit of power. The maintenance shutdowns have all been completed in Q2, which will contribute to better operations in the coming quarters.

In sugar, we have sold almost all the high cost inventory of the last season. We expect better business condition in the coming season, which will of course depend to some degree on the response of the government to the changing industry dynamics. The sugarcane price for UP has just been announced a couple of hours ago. The SAP is ₹ 205 for the general varieties. There is one more change, which the industry has taken up; for out center supply of cane, we are allowed a deduction of about ₹ 5.50 per quintal of cane. The industry has suggested that this deduction should be increased to about ₹ 10.50, so that is under discussion, and we do hope that this will be accepted by the government. Then, the out center cane which in our case is about 60% will be at about ₹ 195 against ₹ 205. The other thing where we require a quick response from the government is on the export front to take care of the surpluses, which is expected in this coming year.

The Agri-input vertical of the Company comprising urea, Bioseed and farm solutions are performing satisfactorily which is expected to continue.

The Fertilizer business had steady performance with strong fertilizer demand, steady gas supply and timely subsidy payments by the government. The new pricing policy for urea is still being finalized. We hope the policy will address the genuine issues of the industry so that the industry can see new investments which have been almost nil over the last several years.

The farm solution business is expected to continue to register good growth driven by strong demand for high quality Agri solutions and inputs and our expanded product portfolio, which includes DAP and MOP also. We are also strengthening our agri extension activities to focus our marketing efforts on delivering better solutions to the farmer.

Our Bioseed business is registering healthy growth as we continue to launch new products and the products launched in the last few years gained volume. The growth is across all territories. We are confident of accelerating the growth further with a strong product pipeline and expansion to new territories. The product portfolio now covers cotton, rice, corn, millet and vegetables. In each of these focus crops; we are establishing our presence across segments, which will help us in achieving high growth in this business.

Regarding Hariyali, we shared with you earlier that the Company is strengthening all aspects of Hariyali's operations with the help of outside experts. The plan being implemented involves defining and understanding more closely our customer segments, focused price value propositions, product offerings in line with the value propositions, and a strong customer acquisition programme involving promotion and several other initiatives. We have done outlet rationalizations and are moving towards gross margin enhancement. We expect to implement a major part of this plan in Q3 and Q4 of financial year 2011. In Q2, we saw core retail sales grow by 7 to 8% in spite of a 10% reduction in the number of outlets, which we expect to continue growing further as we implement our revised plan.

The Fenesta business during the last few quarters has witnessed a healthy demand for the product as reflected by a growth of about 54% in its order booking. The revenues, which mirror order execution, have also started to grow and should catch up with order booking over the next few quarters. Retail segment is showing healthy growth. We are further extending our retail presence and plan to be in approximately 60 cities by the end of this financial year.

Overall, going forward we expect better performance as the net back of power improves with stabilization of Chlor-Alkali and PVC production, sugar business recovers and our agri-input vertical continues to grow. Growth in Fenesta is expected to accelerate. We continue to conserve cash and control capital employed, which will help us in going forward.

I will now request Vikram to take you through the financial numbers for Q2 and H1 financial year 2011.

Vikram Shiram: Thank you. Good afternoon, ladies and gentlemen. I will now summarize the financial results for the second quarter and half year ended September 30, 2010. Total revenues for the quarter were higher by 22.6% at ₹ 1,053 crore compared to ₹ 859 crore, on account of improved revenues from farm solutions, Hariyali Kisaan Bazaar, Bioseed and Fenesta businesses. For the half-year, revenues were higher by 15.5% at ₹ 2,073 crore. PBIT for the quarter was negative at ₹ 28 crore while for the half year, it was negative at ₹ 21 crore. This was largely as a result of negative margins in the sugar business, one time rationalization and consultants cost in Hariyali leading to higher losses, sharply lower power sales, and realizations and losses in cement business due to dip in realization. The Interest cost for the quarter and half year were lower by 32.8% and 36.8% at ₹ 16 crore and ₹ 33 crore respectively on the back of lower average debt. Net loss for the quarter and half year stood at ₹ 29 crore and ₹ 38 crore respectively.

Let me now take you through our business wise performance for the quarter under review.

The Revenues from the fertilizer business for the quarter were higher at ₹ 112 crore as a result of higher volumes. The Company in the corresponding period last year had lower volumes on account of a planned maintenance shutdown. PBIT during the quarter were lower by 15% as compared to last year as the Company had received higher arrears on account of NPS III in the previous period.

Our farm solutions business revenues were higher during the quarter and half year by 273% and 127% at ₹ 391 crore and ₹ 588 crore respectively, on the back of sale of DAP and MOP which was nil last year along with higher sales of SSP. PBIT for the quarter and half year improved to ₹ 18 crore and ₹ 25 crore respectively.

The seasonal nature of the seed business resulted in lower PBIT from the Bioseed operations during the quarter. However for the half year, revenues and PBIT were higher by 39% and 36% respectively at ₹ 144

crore and ₹ 22 crore respectively led, by a healthy performance across all geographies and strong demand across hybrids. Just to reiterate, the performance in this quarter is not indicative of full year results.

Revenues during the quarter and half year from the sugar business were lower at ₹ 90 crore and ₹ 254 crore respectively on account of lower sales volumes that are 3.35 lakh quintals during the quarter and 8.7 lakh quintals in the half year, compared to 6.1 lakh quintals and 14.8 lakh quintals respectively last year. PBIT during the quarter swung from ₹ 12.5 crore in the previous year to a loss of ₹ 18 crore in the current quarter, due to swing in free sale sugar margin from positive margin of ₹ 584 per quintal to a negative margin of ₹ 464 per quintal. The PBIT during the half year swung from ₹ 18.6 crore in the previous year to a loss of ₹ 56.1 crore due to the free sale sugar margins moving from a positive margin of ₹ 420 per quintal for the half year last year to a negative margin of ₹ 368 per quintal this year.

In Hariyali Kisaan Bazaar revenues increased to ₹ 157 crore and ₹ 345 crore respectively during the quarter and half year. This growth is primarily attributed to traction in the retail, seeds, milk, and fuel verticals. The core retail sales grew by about 8% during the quarter despite a 10% reduction in the number of outlets. The Company incurred one time cost of about ₹ 10 crore in the first half of the year on account of one time rationalization and consultant costs which have resulted in a lower PBIT.

The Chloro-Vinyl revenues and PBIT were lower during the quarter as the businesses were impacted primarily on account of sharp deterioration in power realizations, which dipped from ₹ 6.4 per unit in Q2 FY2010 to below the cost of production this year, which made power sales unviable. Due to this, the Company rescheduled its planned shutdown at Kota to be taken during the year to the current quarter. This had an impact of about ₹ 10 Crore in the quarter. As the net pay back per unit of power from downstream products was better than sale of power, the Company has started to increase production and sale of downstream products that is PVC, Chlor-Alkali, and calcium carbide at Kota.

PBIT of cement business declined due to lower realizations, which were lower by 15.4% and shutdown of the cement plant for regular maintenance. Revenues under other segments during the quarter and half year registered a growth of 16% and 12% at ₹ 96 crore and ₹ 179 crore respectively. The healthy performance was aided by improved results in Fenesta. The Fenesta business witnessed a revenue growth of about 34% and 30% during the quarter and half year respectively. The retail demand for the product has also been strong while a demand pick up in the institutional and built up segment is also visible. Interest cost declined by 36.8% and 32.8% during the half-year and quarter due to lower average debt. These, on a broad level, are our financial numbers. We would be glad to take any questions that you may have.

Moderator: Thank you. Our first question comes from the line of Nirav Vasa from SBICAP Securities Ltd.

Nirav Vasa: Considering the fact that now the SAP has been announced at ₹ 205 per quintal, what is the mood across the sugarcane-growing community as of now? Are they satisfied with this price or are they demanding a comparatively higher price?

Ajay Shriram: Well, let me put it this way, there are two or three things involved with the sugarcane price. The industry had taken it up with the UP State Government, and in the discussions, we said it should range about ₹ 180-185. That was what we had expected. At the same time what is also important is having reasonable intercrop price parity, so that the farmer does not switch over from sugarcane to other crops, because the income on an annual basis if one works out per acre or per hectare is better than sugarcane. I think the issue, which we are also taking up very aggressively with the government, is that the price has to be such, which is attractive to the farmer. At the same time, what is required to be done is the exports of the surplus sugar, because today the international price for sugar is much higher than what we are getting over here. So if that happens, then the surplus in the Indian market will get reduced giving us a better price of sugar. Secondly, I think we have worked aggressively with the government on the de-control front; you may be aware that the government has already set up a committee; I think Mr. Ranganathan is there. Mr. Kaushik Basu and Mr. Nand Kumar for giving a parity between the sugarcane price and sugar price. If one sees Brazil or any other country, the sugarcane price is normally 60 to 65% of sugar price. So the government has been requested and they have taken up this matter. I think the ₹ 200 was ₹ 8 to 10 more than what we expected. However, I think one more thing in UP which I had mentioned in the opening remarks is that the freight deduction for out center cane which earlier was ₹ 5.75 is expected to be about ₹ 10.58, so that will give approximately ₹ 5 benefit for 60% of our cane purchase. So, for outstation cane instead of ₹ 205, it will be about ₹ 194.50, so that will give us an advantage also.

Nirav Vasa: So, the landed cost of cane for the crushing season would be around ₹ 190-200.

Ajay Shriram: I think it will be around ₹ 200. If at least 40% of the cane is going to be about ₹ 205 and 60% is about ₹ 195 then I think on an average - I am taking 40:60 as a sort of approximate ratio, it should be in the range of about ₹ 200 plus or minus ₹ 2 or 3. As I mentioned this is the purchase price for out-center cane, but there is also a freight etc., which is common for all years.

Nirav Vasa: What is the pricing offered by khansari and jaggery manufacturers for cane?

Ajit Shriram: The khansari and jaggery manufacturers are paying different prices; it is in the range of ₹ 150-180 currently.

Nirav Vasa: Do you expect a large shift in the divergent levels, between the cane that was directed towards this unregulated market (khansari and jaggery) and the regulated market?

Ajit Shriram: We do not expect a large shift towards this. Normally, the divergent level remains roughly the same. It is only in a short year the percentage of diversion goes up and in a regular year, the percentage of

diversion comes down, but the quantity in general remains the same, and in fact, it is coming down over the years.

Nirav Vasa: Is there any progress on the rollback of the levy quota hike that was there last year?

Ajay Shriram: Yes, it is already being done; it has come down from 20% to 10%. It has already been notified.

Moderator: The next question comes from the line Falguni Thacker from Jet Age Securities. Please go ahead.

Falguni Thacker: Firstly, on this one time rationalization cost, which was also there in Q1, this quarter it is at about ₹ 10 crore, so will this rationalization cost be there in Q3 and Q4 also?

J.K. Jain: ₹ 10 crore rationalization cost is for the half-year, not for the quarter.

Ajay Shriram: In this half year we have actually closed approximately 32 outlets and we have had to pay our consultants, so that is why it is a one-time cost.

Falguni Thacker: Are there more payments due which would likely come up in H2?

Ajay Shriram: No, as of now except for the consultants, there is nothing more due. I think in terms of number of outlets we are not looking at any major shutting down further. What we are looking at is trying to see in the next two three months whether we can start putting up some new outlets. That is under study now, and I think within the next three months we will take a view and hopefully, in the next three to six months after that we will add between 10 to 12 new outlets in different locations so that we get better footfalls.

Falguni Thacker: Since the note mentioned a plant shutdown has been taken early, which we normally do because of the power realizations being low, and if you see the breakup of Chlor-Alkali and plastic PVC, plastics have contributed to a negative PBIT. So even if we get back to a normal production, would it essentially mean higher PBIT for the Chloro-Vinyl segment?

J.K. Jain: Higher loss for plastics was largely driven by lower volumes because it is taking time to build up the full volume and the start up cost, plus part of the PVC plant was under shutdown. A couple of furnaces were also under shutdown, which led to higher repair expenditure, but on a net back basis at a normal operation, PVC is a positive PBIT.

Falguni Thacker: If we exclude everything and see it under normal operation?

J.K. Jain: Then it is a positive PBIT business.

Falguni Thacker: In short, would the H2 FY11 numbers for Chloro-Vinyl be better than this reported in Q2 of this quarter?

J.K. Jain: Yes. Definitely better than that.

Falguni Thacker: In this Bioseed business, though the topline has grown on a consolidated basis there has been a loss in this segment. What is the reason for that?

Vikram Shriram: No, that is only for the quarter that there is a loss, and that is because of the seasonal nature that this is linked to the planting season.

Falguni Thacker: But there was a profit on that the same time last quarter.

Rajiv Sinha: That is also due to the exact timing of the monsoons whether in this country or the rains in Vietnam and Philippines, a marginal spillover can take place from the June phase to July phase or vice-versa. That is really a fine-tuning. So if you look at the six-month numbers, that would give you a better picture because that spillover from June phase to July phase may have happened last year. However, that did not happen this year.

Falguni Thacker: Lastly, on sugar, since we had already marked down our inventory both levy and non-levy in last quarter itself, why was there further loss in this quarter given the fact that realizations did not dip that much in this quarter?

J.K. Jain: See, there is no loss on levy sugar because levy sugar was at the selling price only. There has been marginal loss in free sugar, which is about ₹ 100 - ₹ 150 a quintal because we had marked it down to ₹ 26.50. The actual prices went below that. It has recovered now and is over ₹ 27.5 in October, but in Q2 it was lower.

Falguni Thacker: So, we have sold out all this season's inventory in sugar?

J.K. Jain: We have not at the end of September, but by October end and November, we would have.

Falguni Thacker: In short we will begin the new season with zero inventory of last year.

J.K. Jain: Absolutely.

Moderator: Our next question comes from the line of Achal Garg from Deutsche Equities.

Achal Garg: When do they expect to break even in Hariyali Kisaan Bazaar? You mentioned that first half we have put in a one-time cost of ₹ 10 Crore, despite that we have made a loss of ₹ 46.75 Crore on the PBIT level. When do we expect to break even as we are consistently making losses in this particular segment although this is supposed to be a high growth segment for you in terms of revenue growth?

Ajay Shriram: Yes, it is. The entire exercise we have done with these consultants as I mentioned the focus now on the value proposition centers on the product range, merchandize range, customer acquisition. All that is moving very aggressively and we, in fact, had 307 outlets and now we are down to 275 because we closed 31 outlets. So, our expectation is that the business from this balance 275 will continue growing. We have grown in this quarter as we mentioned in spite the closure of 10% of the outlets, but to give an exact figure when we come to breakeven, I think it will take a couple of years. I think the way it is going just now, we have seen the retail is not as you see across the board. It is a difficult business, but I think the important point is the network, credibility, and brand equity we are building. I think that is something, and I would say we are the only ones in organized sector who are actually working with the farmers to increase their profits. So, our customer loyalty is also on a very high order. I think all these things are positive for us down the line as the income levels in rural India are going up, which also makes the money available better than two years ago. I think these value problems will change in the next couple of years, and things should improve substantially.

Achal Garg: What kind of margin improvement do we expect in the Chloro-Vinyl business going forward? You mentioned that there was higher cost in this particular segment. What kind of margin improvement do you expect in the second half?

Ajay Shriram: I think frankly that our costs in this business are under control. We are actually well within budgets. I think operationally whether it is a Chloro-Vinyl or whether its fertilizers or cements or anything or Fenesta or growth in Hariyali, I think operationally we are strong. We are actually moving ahead well in all our operations. The Chloro-Vinyl and PVC has taken some time to come back to full production, because being out for almost six to eight months, getting back to the market share without disturbing the prices too much is what has taken a little time. But, we are not expecting that there will be any reduction; see the international price of caustic soda is almost ₹ 5,000 higher than in India, so industry is also moving for some exports. We are hoping that in the next three to five months there will be a marginal improvement in the realizations of the caustic soda and chlorine business. That actually should improve our margin going forward.

J.K. Jain: Just to add to that, we have not seen margin improvement but what we are saying is we will have full production going forward, which we did not have any Q2. In addition, we will not have a start up cost because in Q2, when we switched back to these products they were the starting up cost. That would happen so; these two factors will lead to better profits in the coming quarters.

Achal Garg: So we expect similar kind of profitability, which we had seen in first half 2010 I believe.

Ajay Shriram: So I think it would be better actually, because our capacity utilizations will be much higher. As I mentioned, we were taking shutdowns or we reduced our production because of the power sale as well. Because the power prices were low and we had undertaken overhauling. We took all our boiler

shutdowns at Kota during the Q2, so our production levels will run at full capacity in all our plants and that will be better.

J.K. Jain: It would be better than Q2 substantially.

Achal Garg: What is the major reason behind this negative or significant decline in PBIT in the cement business?

Rajiv Sinha: I think almost 15% drop in prices is the biggest factor, and then we had a longest maintenance shutdown which was scheduled and planned, but I think broadly these are the two reasons, the biggest reasons is of course the big drop in realizations.

Achal Garg: What kind of numbers do we expect in the sugar business because the last two quarters consistently we have been making significant losses in the sugar business? You mentioned that you have written off entire high cost inventory, so hopefully we should expect some better numbers in the sugar business going forward?

Ajay Shriram: Absolutely I think we do expect better numbers; I think for two to three reasons; one is sugarcane price has also been fixed now. Last year, the select industry and some members in the industry paid ₹ 250 and ₹ 260 and really high cost because the sugar price that time was running at ₹ 37, ₹ 38, or ₹ 40 is now is much lower I think one is the sugarcane price is there. Second, the industries are working very actively and taking up with the governments for exporting sugar for getting clarity between sugar price, parity price. I think all these parameters will help us in the long run.

Achal Garg: Do you have any major Capex plans for FY'11-12?

Vikram Shriram: We have not gone into too much detail as yet, but as of now we are not looking at any major Capex plans. If we get cost reduction investments, we get things for efficiency improvement, we will look at that.

Achal Garg: What would be your average Capex for FY'11 and FY'12?

J.K. Jain: See our average Capex is about ₹ 40-50 crore, which will remain, but other than that as CMD said right now, we do not have any major Capex plan in the financial year.

Achal Garg: How is the debt maturity profile looking in FY'11, how much is maturing and what will it look like in FY'12?

J.K. Jain: We have a repayment of about ₹ 100 crore to ₹ 120 crore every year.

Achal Garg: Given the significant decline profitability, do you plan to refinance for the current year or have you already done it?

J.K. Jain: As of now we expect that we would be able to meet the repayment obligation because see traditionally we run on very high current ratio so there is no liquidity issue with us, our current ratio etc. They are all very healthy so meeting repayment is not an issue so far.

Achal Garg: What would be the average cost of funding?

J.K. Jain: Short term now of course will be about 7.5% or so, long term is about 8% fully hedged.

Moderator: The next question comes from line of Tarun Surana from Sunidhi Consultancy Services. Please go ahead.

Tarun Surana: On the fertilizer business side, as there are a lot of thoughts of investments into the sectors within urea as well as customized fertilizers, would you be planning to expand into that business committing some CapEx into customize side?

Ajay Shriram: As I mentioned, we are not looking at any major Capex right now. The urea fertilizer policy is still uncertain, and it is not clear what is going to happen. Discussions are going on between the industry and the ministry, but nothing is clear as yet, and we in fact in our trading business are already outsourcing and getting MAP, MOP, DAP, complex fertilizers, SSP. In fact, we have a SSP plant, which operates, and we got two to three more plants from where we outsourced from them, so we will continue adding new fertilizers and micronutrients into our product portfolio, which we sell through our Farm Solution division.

Tarun Surana: The trading of fertilizer is already being taken up quite aggressively through your Hariyali Kisaan centers?

Ajay Shriram: The Hariyali Kisaan Bazaar actually buys all the products and sells it through our own outlets, but at the same time we have a Farm Solutions division and there we import DAP, MOP, SSP, made from our own plant or from outsourced plants, micronutrients, and a whole range of soluble fertilizers, pesticides, agrochemical etc. The full range of products are sold through the farm solutions business and that is going well.

Tarun Surana: I just wanted to understand margin on this traded fertilizer since the NBS provides you a fixed subsidiary, which is already in terms of rupees. Is there any impact of rupee volatility on imported fertilizers that you face?

Rajiv Sinha: I think these are two independent questions. I think the way you contract your imported fertilizer and depending on whether you are hedging the foreign exchange cost will determine the impact of rupee variation. I think that is the independent of the fertilizer policy.

Tarun Surana: The policy provides direct Indian rupee terms; it does not benchmark it to ₹ 46 or so?

Rajiv Sinha: It benchmarks at a point of time when the price was declared. After that if there is a change, if benchmark in terms of say USD 370 for MOP as an example, so thereafter you have tied up your metro credit, you have imported and you want to cover it, you have taken a credit, not taken it. That is a treasury decision and that is nothing you do with the policy.

Moderator: Thank you. The next question comes from line of Amnish Aggarwal from Motilal Oswal Securities. Please go ahead.

Amnish Aggarwal: With the kind of output you are indicating for the sugar industry distribution likely to be bumper. Where do you see the molasses prices currently and what is the outlook on that going forward?

Ajit Shriram: As far the sugar production is concerned, we are looking at a sugar production of about 25.5 million tonnes and with the consumption of 23.5-24 million tonnes, there is not going to be that much of a surplus. So we are talking about just a couple of millions surplus on the outside and we do hope that exports of 2-3 million tonnes takes place. Going forward, our levels of opening balances and closing balances will be in a comfortable position but relatively tight. We are not looking at major surpluses and with the government moving ahead with ethanol E-5 program, Ethanol 5% blending program on petrol, oil marketing companies having contracted that from the sugar industry on an all India basis. We do hope that the prices of molasses will as such remain firm.

Amnish Aggarwal: What is the current ruling price of molasses?

Ajit Shriram: Current ruling prices may be in the range of ₹ 250 or ₹ 300, but that too is a very small quantities, because most of the companies have finished up their stocks that to mentioned in sugar as well, we finished the high cost inventory.

Amnish Aggarwal: What were these prices one year back?

J.K. Jain: I think the prices have been running at about ₹ 300 only since last year, has not changed much.

Amnish Aggarwal: Given this year surplus of 2 million tonnes of sugar, do you see the sugar prices in the domestic market coming off in any significant manner?

Ajit Shriram: Actually, the government has already given export releases of roughly 0.4-0.6 million tonnes, and we do hope another 1.5-2 million tonnes takes place over next five or six months. Because the international prices currently are ruling at merely an all time high, the current raw sugar prices are about 29.50 cents, and these are extremely attractive for sugar exports from India currently.

Amnish Aggarwal: You do not think that prices here will soften any further?

Ajit Shriram: I do not think so. In fact we do hope that this prices will harden in the future so that we are able to pay reasonable cane prices to the farmers because sugarcane unlike wheat, paddy, and other crops is a two year or three year crop, which means the farmer has to commit his land to sugarcane for at least two or three years. Hence, the farmer needs to be incentivized in a positive manner to stay in sugarcane. We need to pay higher cane price vis-à-vis paddy or wheat for him to stay in sugarcane and make India self-sustainable in sugar.

Amnish Aggarwal: If we look and say the indicative price of approximately ₹ 200 per quintal of sugarcane, at what price of sugar per quintal will you break even?

J.K. Jain: About ₹ 26 and ₹ 27 will be our breakeven price, and if you want a reasonable margin then it should be ₹ 30 plus.

Amnish Aggarwal: If we look at the areas in retail model given in the urban areas, the Company's hypermarket model is struggling over there. In that sense, we are having some sort of rural hypermarket in model if my understanding is right. So, in such a scenario, how do you think this model will pan out and where do you see the viability of this model in the coming few years?

Ajay Shriram: I think our model is not a hypermarket; ours is actually a consumer linked market. The normal city hypermarkets are B2B proposition, and secondly, as you said we have done very intensive work for the last seven to eight months in terms of identifying a better product range, getting a better value proposition, the merchandize range, our stock availability in the outlets. We are strengthening that further. We are moving on an aggressive promotional strategy to get more footholds; we are providing various attractive promotions schemes and various other schemes to attract customers to improve our sales and consequently, improve our margins. So I think this is something, which is ongoing. It will take a few years, there is no doubt on that because retail business is a long-term business. We deal with the changes we bought about now with the intensive focus on getting more customers and improving margins and improving turnover. I think this will definitely bring results in next few quarters.

Amnish Aggarwal: Can you give us some breakup of the total sales, which you are having through the Hariyali Kisaan Bazaar? How much of these are agri-linked sales, and how much of these are the pure merchandising sales like we have in urban India?

J.K. Jain: We do not really compile it that way, but broadly, you can see that of the total segment sale that we have indicated. About 40%-45% will be core retail and out of which 40% will be agri input.

Amnish Aggarwal: But what is the balance 60%?

J.K. Jain: Balance 60% other than core retail is actually fuel and the output side that we paid. We also buy the products and we produce the variety seeds, which are the open pollination variety seeds.

Rajiv Sinha: There are number of activities, which are related to the output side, which make logical business sense because we use premises and facility available in the Hariyali outlet to carry out the business, for example, production and sale of seed. That is a growing business and has shown positive contribution. We have just forayed also a bit into the milk collection business, which again dealing with the same farmers, so there are a number of these business, which are adding to the size of retail because in many cases, the same customer is a supplier in the other case.

Amnish Aggarwal: But if you are circulating milk from the farmers, to whom are we selling this product to?

Rajiv Sinha: To dairies.

Amnish Aggarwal: Okay we are acting just as an intermediary over there.

Rajiv Sinha: Yes, we are doing the job of collection and supplying good quality milk to the users.

Amnish Aggarwal: So these are local dairies or your large milk plants, etc?

Rajiv Sinha: It is a combination depending on the location.

Ajay Shriram: I will just add these dairies are in the organized sector.

Amnish Aggarwal: In a sense your model is slightly like your e-choupal, I do not say that is fully e-choupal Sagar, some procurement, fuel, also from the sale of agri inputs also.

Ajay Shriram: Well I will put it differently, I think e-choupal is a very different model than Choupal Saagar to a degree. Yes, I think Choupal Saagar in each outlet has become much more expansive and much bigger than what we have done, but we are trying to see whether having this asset on the ground in rural India will add value to that network of our people, our asset base, and our structure. As I was saying, we have two models as you are aware; one is the center which is between two to four acres of land with the Company, we have 83 of these, plus we have stores, which is rented properties which are in the range about 4,000-8,000 square feet. So we are working to optimize in both of these. We have this asset base like we have done in agri and food business, where earlier on we have the marketing over fertilizer business. We saw tremendous assets of wholesalers and retailers, so why limit it only to selling urea, and that is how we got into DAP, MOP and various types of fertilizers and soluble fertilizer etc., and nutrients etc., where in the same place in Hariyali that we have the retail business. That is the core business, but besides that, how do we utilize this asset more optimally, and, if I may say so, juice it more or squeeze it more to utilize these assets to get more value added. That is how we got into petrol pumps. So today, we have 20-odd petrol pumps where we are selling fuel. We got into LNG sales. We have got into special collection of seeds to grow. We have looked at various opportunities of how to add value to our outlet.

Amnish Aggarwal: So we are also looking at some sort of foray into financial services marketing based on this network?

Ajay Shriram: We have done this. We in fact have a tie up with ICICI Lombard for insurance and for banking as well which has been the sold to our outlet, because that is again something by which we can value add on the retail assets.

Moderator: Thank you. Next question is from the line of Rishab Bothra from B&K Securities. Please go ahead.

Rishab Bothra: We had closer to ₹ 10 Crore of exceptional item loss in Hariyali Kisaan Bazaar. If we remove this from the first half we would have ₹ 350 million is still a loss as compared to ₹ 375 lost last year, comparable period. So, we are not exactly improving as of now in our Hariyali Kisaan Bazaar sales because the stores have also been shutdown. The losses remain at similar levels despite higher revenue front.

Ajay Shriram: As we mentioned, we are bringing out a new value proposition, which we talked about couple of minutes ago. The results for that will take a couple of quarters to go up. It would not happen so fast. Secondly in the last quarter and the first quarter, we have closed 30 outlets in spite but the sales went up, which means actually the footfalls are going up, our sales per shop is going up, our sales value and the number of people entering is going up, which is the positive side. Now with this season coming now, with the Diwali season and in the winter season, we feel and we have seen it from experience that the sales are better, and with the aggressive promotion activities down the line we think the benefits will definitely come.

Rishab Bothra: What proportion in H1 is from the agri input. I mean selling of urea, DAP and your farmers related product, because I feel that those things are referenced of consumer, and to shift their habits from local Kirana stores to these kinds of market will take quite a lot of time because we have almost lost ₹ 253, ₹ 275 Crore in a span of four years. So two, three years more might pass on to change their buying habits.

Ajay Shriram: We do not feel that it is going to be that long. I think give a couple of more quarters to see the impact of the changes. I think we made radical changes, there are changes in all aspects of the business, including some new people have been brought in who are actually adding value to this. Also, I think the issue that comes in is that we have taken up private labels as a very major initiative where we are providing better value on lot of food items. There are many other consumer goods and that is also adding value, plus the promotion happens naturally it will make it a difference due to high value.

Rajiv Sinha: I think as you rightly said on agri we have now seen a clear preference of the rural consumer to come to Hariyali. In the last two, three quarters we have seen the same destination concept developing in the category of food and grocery. We had good success in drawing customer to the food and grocery category and some of the household categories including consumer appliances. We are now working towards increasing and developing the same kind of concept on the lifestyle and the balance household

category. Therefore, to some extent what you are saying is right, that it takes time; I do think the customer behavior nature, I think it does not more time. I think it is taking time for us to understand what the customer needs. That is what we have been trying to do reconfigure ourselves and as you reconfigure, as we have done in other categories we find that the customers start coming. Therefore, it is not so much a change in habit in fact this seems to be a bit of a myth that the rural consumer is very different in these kinds of ways. If the right value proposition is given; the customer is willing to come to your outlet. This is what we are finding in some categories where we have cut out to revamp and move forward, and that is what we are in the process of doing.

Moderator: Thank you. The next question comes from the line of Sandeep Pandhare from Kotak Portfolio Management. Please go ahead.

Sandeep Pandhare: If I recollect correctly, first quarter 60%-70% of revenues I guess from BT cotton in the Bioseeds business. Sir, going forward, which are the crops which would increase growth? What is your expectation?

Rajiv Sinha: I think in the third quarter, it will be primarily vegetable seeds sales and some corn sales, and then in the last quarter corn sales across all of our territories especially Vietnam and Philippines that is the high season. We have significant corn sales in those territories. Then we have some cotton sales in India and some paddy sales in Vietnam and Philippines.

Sandeep Pandhare: That would be in the fourth quarter?

Rajiv Sinha: Yes, in the fourth quarter.

Sandeep Pandhare: On cotton, what is the outlook going forward say on pricing front are you expecting any increases in the next year or so?

Rajiv Sinha: As of now, the industry is trying to work and reason out with the state governments because there has been a lot of increase in the labor cost, which the industries are unable to realize from the selling price, but as of now, there is no relief immediately that we can forecast. There are some court cases also being fought in Gujarat and Maharashtra, so we will wait for the outcome of those also. As of now, there is not much change and this provision will actually be clearer towards February.

Sandeep Pandhare: On the debt, is it possible to give breakup of debt in terms of long-term and short-term?

J.K. Jain: Long-term was about ₹ 950 crore and short-term was about ₹ 575-580 crore.

Sandeep Pandhare: Regarding an article which I came across in Business Line sometime back on hybrid rice, which seems to be a big opportunities in the long-term say the next four to five years I think, what would you are facing there, so when exactly do you expect that to start growing?

Rajiv Sinha: I think hybrid rice, if you see the overall industry pattern today, as a total paddy volume is hardly under 3%-4% only, so to that extent it is a major opportunity. It is similar in the other markets that we operate in, whether it is Vietnam or Philippines. There is a large opportunity in terms of hybrid rice coming into the system. I think we like some of the very good companies have focused a lot on developing the right research varieties, which could be introduced in the market and for some of the segments, we already have products, which is what we have done in the last two years. In the next two to three years, we are going to introduce products in some of the bigger segment where we have not been present. That was one thing that we were lacking and that product is now available with us and it is excellent as compared to competition, so we expect that every year we should see good growth in our paddy business, across all the territories.

Sandeep Pandhare: Any plans of hiving off Bioseeds?

Vikram Shriram: This is something that we will look at in the appropriate time. Right now, there is a process of consolidation going on because when we bought over the Company, there were several crossholdings and other things in the whole ownership structure. After it has become 100% owned by us, we have to sort out all the crossholdings and other things, once it is all cleaned up we look at it into the future.

Sandeep Pandhare: What is the rough breakup for Bioseeds in terms of geographies?

Vikram Shriram: It is about 60% domestic sales, then Vietnam is next and then Philippines after that, Indonesia after that, which is just a nascent stage actually. Indonesia and Thailand are really at a very, very nascent stage, and China is in the testing stage, so that is in a pre-commercial stage. The Philippines and Vietnam are commercial.

Sandeep Pandhare: In Vietnam and Philippines, are the major crops corn?

Vikram Shriram: So far the major crops have been corn, but going forward we are looking at rice being an opportunity. Some vegetables could also be an opportunity, and we have a license from Monsanto to introduce GM Corn and the first one to get it and the only one to get it for Philippines, so we have introduced that this year. So we expect GM Corn to do well in Philippines from next year onwards.

Moderator: Thank you. As there are no further questions, I would like to hand the floor back to the management for closing comments.

Ajay Shriram: Thank you. Once again, we would like to thank you for attending DSCL Q2 and H1 FY11 Earnings Call. We continue to be operationally strong. Our capacity utilization is good and our cost of

production is within budgets. As mentioned during the call we expect better performance during the forthcoming quarters as swing capability at the Kota facility would enable us to achieve healthy contributions per unit of power. The sugar scenario, low cost of production and some recovery in prices will also be very helpful. A strong growth in agri-inputs vertical and Fenesta is expected to continue, and Hariyali, we would record better performance from the next financial year. Thank you once again for participating in our conference. Good bye.

Moderator: Thank you very much sir. On behalf of DCM Shriram Consolidated Limited that concludes this conference call. Thank you for joining us, and you may now disconnect your line. Thank you.

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