



DCM Shriram Limited

Q2 FY20 Earnings Conference Call Transcript

October 30, 2019

Moderator: Ladies and gentlemen, good day and welcome to DCM Shriram Limited Q2 and H1 FY20 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 an operator by pressing “*” then “0” on a touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar: Thank you. Good afternoon and thank you for joining us on DCM Shriram Limited’s Q2 & H1 FY’20 Earnings Conference Call. Today, we have with us Mr. Ajay Shriram – Chairman & Senior Managing Director; Mr. Vikram Shriram – Vice Chairman & Managing Director; Mr. Ajit Shriram – Joint Managing Director; Mr. K.K. Kaul – Wholetime 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 on today’s call could be forward-looking in nature and a note to that effect has been included in the ‘Conference Call Invite’ circulated earlier.

I would now like to invite Mr. Ajay Shriram to give us a Brief Overview on the Company’s Performance during Q2 & H1 FY20 and his views going forward. Over to you, Sir.

Ajay Shriram: Thank you. Good afternoon ladies and gentlemen. We are happy to have you on this call. I will commence with our perspectives on business developments and opportunities, post which, Vikram will address you on the financial highlights during Q2 & H1.

In the 2nd quarter, the operating performance was satisfactory. We achieved volume growth in the Chlor Alkali business and higher revenue in Fenesta business. However, the financial results reflect the adverse cyclical movements in the Chlor Alkali business. The PBDIT during Q2 FY20 came in at Rs. 243 crores, lower than Rs.313 crores last year, on account of lower ECU realizations in Chemicals and lower sales of Sugar and Ethanol in our integrated Sugar business.

Our strategic initiatives are on track. These will support growth in earnings with higher volumes, lower costs and stronger integration. All these projects are progressing as per schedule and will become operational in Q3'20 and then in Q1'22.

I would like to turn your attention to the business wise updates:

Chloro-Vinyl

In this segment we have chemicals and plastics businesses.

Chemicals:

During our last concall on 2nd August 2019, We had mentioned about the softness in both Caustic and Chlorine prices after about 6 qtrs of high ECU realisations. The prices dropped to the levels seen in April-Sept 2017 and have been stable for last two months. The reduction in Caustic soda prices are in line with the trend in global caustic prices. The import of caustic soda in the country has gone up post the BIS approvals to foreign manufacturers. The total imports of caustic in the country during April-Sept 19 have been about 1.69 lac tonne vis a vis imports of only 0.5 lac tonne in Oct 18 to March 19 and 2.35 lacs tonne in entire FY 19. The exports of caustic soda from the country have also been adversely affected due to sharp drop in global caustic prices.

The domestic demand for both caustic and chlorine has also been soft during the current year. This has resulted in chlorine prices varying between marginally positive to negative of around Rs 3,000/ per tonne. Some more additional capacities are likely to become operational in the country during the next two-three quarters. This is likely to cause short-term disturbances in the market.

We expect that as the global and domestic economic condition stabilizes, the growth in demand for these basic chemicals will build up again and the situation will become normal. The Indian chemical industry has strong fundamentals and competitive position. It is expected to register strong growth over the medium term.

We continue to strengthen our competitive position further. With the commissioning of our 66MW new power plant at Kota in Dec 2019, our cost structure will further improve. This would help us improving the capacity utilization as well as margins going forward. The commissioning of new power plant in Bharuch in Q1'22 will similarly help in further improving cost structure there.

We have recorded volume growth of about 23% in H1'20 vis a vis last year. We are focusing on maintaining the higher production levels in the H2 as well.

Plastics:

The domestic PVC prices have seen continuous improvement since April 19. This is supported by upward movement in global prices, additional custom duty in July 19 and favorable currency movement. The Carbide prices are also firm and have seen growth over last year. We are also recording cost improvements, as last year the operations were adversely affected due to issues relating to use of petcoke and shutdown of one of our power plant at Kota. The lower chlorine prices also have positive effect on this business.

We expect stable condition in this business going forward. Commissioning of more efficient 66 MW power plant in Dec'19 will further improve cost structures.

Sugar:

The Sugar business continues to face excess supply situation. The carry over stock on 30th Sept 2019 was about 14.5 mn tonne compared to normal level of about 4.5 mn tonne. The Central Govt has issued advance estimates for cane production for next sugar season 2019-20, expecting lower cane production by 5.6% i.e. by 22mn tonne. The change in Sugar production will also depend on movement in recovery %. ISMA estimated that the sugar production is likely to be about 28.5 mn tonne vs 33 mn tonne in the last season. Even with export of 6mn tonne (if that happens), the country will have excess stocks on 30th sept 2020.

In this situation, continuation of the measures undertaken by the Central and State Govts with regard to cane price, minimum sugar price, sugar release system, buffer stock, supporting exports and encouraging ethanol production are extremely important to protect farmers and industry's interests.

We are looking at commissioning our new 200 KLD distillery in Nov'19, thereby providing full integration on molasses. We are planning to undertake exports against the quantity permissible to us and also try reducing sugar production through B-Heavy ethanol production. These steps will help in lowering the working capital requirements for the business.

Urea:

There is no tangible progress so far regarding the government policy for revision in fixed costs reimbursements and energy norms. The matter is under discussions and we hope a rational policy framework will be finalized soon.

Our plant's operations are stable now post the shut down in March-April 2019.

Bioseed:

Bioseed is registering stable growth in all verticals in India except cotton seed business, which continues to suffer because of government's policy towards introduction of new technologies and price controls. Internationally, Philippines is registering consistent growth.

Shriram Farm Solutions:

As mentioned earlier, we are phasing out the bulk fertilizer business and are focusing now on value added inputs. We have started seeing the positive results of this decision with sharp drop in capital employed in the business and growth in Value added business.

Fenesta:

Strong momentum can be seen in this segment, given our strong product line backed by in-house customization capabilities and robust marketing and business development initiatives. We continuously strive to introduce new range of products into our portfolio as well as enhance our presence geographically in order to continue targeting growth.

Other Businesses:

Performance of Cement and Polymer compounding businesses are in line with the industry. There are demand challenges in both these businesses linked to general economic situation.

This concludes my remarks about the business developments. Vikram will now take you through the financial highlights.

Vikram Shriram:

Thank you. Good afternoon and thanks to all of you for joining us on the call today. I shall take you through the financial highlights for Q2 FY20.

a) The Revenues for the quarter at Rs. 1,753 crore are up 3% YoY. The business wise highlights are as follows:

i. Revenues in Chemicals segment was up 2% YoY at Rs 427 crores. Volumes are up 25% YoY driven by new capacities commissioned at Kota plant (168 TPD) during Oct'18 and 332 TPD at Bharuch in April'19. ECU prices are down 20% YoY (down 24% QoQ). Both the products, Caustic (Liquid) and Chlorine contributed to this drop in prices. Caustic soda flakes price premium over liquid also dropped sharply.

ii. Revenues from our Fenesta segment grew 20% YoY at Rs 119 crores, following supportive trends in both retail and projects.

iii. Sugar revenues declined 8% YoY due to lower volumes in distillery and sugar sales. Sugar volumes stood 6% lower due to lower releases. Distillery volumes were down 27% YoY due to higher sales in Q2 FY19 from earlier period stock. Presently, Distillery running at full capacity. Production during the quarter is up 26% YoY.

iv. Overall Bioseed revenues was up 42% YoY at Rs 117 crores. The growth in India Revenues during the quarter was primarily a timing difference to align with the monsoon trends. The International revenues were up due to consistent growth in Philippines business.

b) PBDIT in Q2'20 at Rs 243 crs, recorded decline of 22.4% from Rs. 313 crs in Q2 FY19. The results of last year included gain of Rs 49 crores on account of sugar inventory revaluation gains. But for these gains, the PBDIT was lower by 8%:

i. Chemicals PBDIT down 20% YoY at Rs 159 crores due to lower margins on account of lower ECU prices.

ii. Overall Sugar PBDIT down at Rs 42 crores vs Rs 98 crores due to lower sugar and distillery volumes and the stock revaluation gain of Rs 49 crores in Q2 FY19.

c) The PAT stood at Rs. 119 crores from Rs. 169 crores in Q2 last year.

Let me also share highlights for our H1 FY 20's performance.

a) Revenues stood at Rs. 3,655 crores down 3% YoY:

i. Chemicals revenues are up 10% YoY at Rs 979 crores driven by volumes gain of 23% resulting from new capacities additions at Kota and Bharuch. ECU prices are down 10% YoY.

ii. Overall Sugar revenues are down 16% YoY at Rs 921 crores due to lower sugar and power volumes. The Sugar volumes are down 24% YoY, a consequence of introduction of sugar release system from June 2018 onwards. The power volumes are down 39% YoY due to shorter season and reduction in prices by Govt of UP.

iii. Bioseed revenues down 21% YoY at Rs 288 crores.

- Indian operations are heavily dependent on monsoons. Net Revenue for Indian operations are down 26% YoY primarily impacted by lower volumes in BT cotton.

- International revenues are up 16% YoY.

iv . Fenesta revenues up 19% YoY reflecting continuous strong momentum.

b) PBDIT at Rs 617 crores was lower by 6.4% from Rs 661 crores in H1 FY19:

i. Chemicals PBDIT is down 7% YoY at Rs 429 crores due to lower margins on account of lower ECU prices, lower flakes premium and higher costs. The –ve effect of the lower prices was partly mitigated by higher volumes.

ii. Overall Sugar PBDIT is up 23% YoY at Rs 129 crores led by better sugar realizations (Sugar realizations up 12% YoY) and earnings from distillery.

iii. Fertilizer PBDIT is –ve Rs 2 crores vs +ve Rs 31 crores in H1 FY19 due to lower volumes and higher costs due to planned plant shutdown in March-April 2019. Plant is stable after commencement of operations post this shutdown.

c) PAT during H1 FY20 stood at Rs. 340 crores vs Rs 387 crores during same period last year.

Our cash position remained strong. Cash generation during H1 stood at Rs 679 crores. The capital expenditure during the period was Rs. 397 crores. The Net Debt went down by Rs. 282 crore vis a vis 31st March 2019. Net Debt as at September 30, 2019 at Rs. 983 crores was 0.7 times the EBITDA for Twelve Trailing Months (TTM).

Capital Employed, excluding CWIP as at 30th September, 2019 remained nearly stable QoQ but rose 38% YoY on account of higher capital employed in Sugar and Chloro-Vinyl segments. Sugar segment capital employed was higher resulting from new capitalizations, and higher working capital. Chloro-vinyl capital employed stood higher due to capitalization of new capacities.

Our return on capital employed, on TTM basis as at September 30, 2019 stood at 25% as compared to 24 % for the same period last year.

We expect to further strengthen our earnings profile with the commissioning of 200 KLD distillery in Nov 2019 and the 66 MW power plant at Kota in Dec 2019.

That brings me to the end of the financial discussion and will be happy to take questions that you may have.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question this is from the line of Anant Bhavnani from Unifi Capital. Please go ahead.
- Anant Bhavnani:** Sir, can you give us some sense of your overall CAPEX plan for the remaining half of this year and next year? And at what peak level would our debt be over next couple of years?
- JK Jain:** So, I think we have completed most of the expenditure against projects which will be commissioned in Q3. After that we are left with one project which has a CAPEX of Rs. 1,070 crore which will be commissioned in April 2021. This is about Rs. 1070 crore, as I said. And besides that, we have normal CAPEX of about Rs. 150 crore a year. In terms of our debt, I think we have stated that the debt level does vary more by working capital than because of CAPEX. But at a macro level, we want to be between 1.5x to 2x the EBITDA. The exact debt will vary depending upon working capital.
- Anant Bhavnani:** Sure. and sir, with regards to the fertilizer business, with the DBT rollout now almost in full phase, how are you seeing the working capital in this new regime in fertilizer as compared to the previous situation? And if you can give us some on how do you see working capital in the fertilizer business from here on?
- K.K. Kaul:** Are you talking about the current DBT or the one, which they are talking about the expected DBT?
- Anant Bhavnani:** Sir, in some part of the country the DBT rollout has been completed.
- K.K. Kaul:** In the current month, right now we are getting our payments within two to three weeks of submitting our weekly bills. But it also depends on what are the budgetary provisions, and the budgetary provisions currently if they get exhausted by October or so, then unless some new provisions are made, there are going to be problems, as we have seen in the earlier years. So, we expect that some additional provisions are likely to be made, both in terms of special banking arrangements and maybe some more provisions. So, we are hopeful there shouldn't be, I mean, it should be as it was in the previous years, so we don't see any major problems arising out of the working capital.
- J.K. Jain:** Just to add, at year level there is not much change compared to earlier periods. But now what happens is, since subsidy is paid only after sale from retailer, there is bunching up that happens. So, let's say, most of the sale happens during June, July, so most of subsidy will get released after that. And similarly, for Rabi when sale happens in December-January, subsidy will get released after that particular season. So, it builds up for a couple of months and then it gets paid. But at a year level there is not too much change.
- Ajay Shriram:** But I just want to clarify that DBT, I think you are referring to a direct benefit transfer to the farmer in lieu of giving subsidized price of fertilizers. That has not yet been implemented by the government, this is still under discussion, because the number of farmers in the country are so large, the requirement of fertilizer are different, crop patterns are different, weather patterns are different, soil conditions are different. So, government has not yet cleared a policy of giving DBT to the farmer. At the moment it is selling the material after registration on a point of sale machine, a POS machine, by which the recording of sale happens to the farmer based on the

farmers' credit card and their identity, etc. And then we are reimbursed the price. So, DBT per say to the farmer has not yet come about.

- Anant Bhavnani:** Sure. And sir, overall with respect to the volumes, given the monsoon has been quite good and the reservoir levels are up, so Rabi might also see strong demand. Are you anticipating any volume growth in fertilizer for this year and then the next year as well? Any sense that you can give us from your historical experience?
- Ajay Shriram:** I think what happens is that, as we mentioned bulk fertilizer we are getting out off, so we don't have any material there to sell. But our own urea, which we manufacture, that we have a limited capacity of 3.79 lakh tons a year, and that total amount is sold, it is not a problem.
- Moderator:** Thank you. The next question is from the line of Pratik Tholyia from Elara Capital. Please go ahead.
- Pratik Tholyia:** Sir, can you give the breakup between the various sugar businesses, as in the sugar segments, distillery, power Cogen and the sugar, the revenue and EBIT breakup.
- J.K. Jain:** See, the volumes are given for each one of them, how their movements have happened. And as we had discussed last time, since it is becoming an integrated business, we feel it is better to look at in totality rather than individual segments, that's why we don't give revenues and EBIT separately. But volumes are all given.
- Pratik Tholyia:** Yes, the volume I have, I just wanted the revenue. Sir, can you just, because the profit in the sugar business is lower if I see on the quarter-on-quarter basis also, despite the volume in the quarter on quarter wasn't down either for the distillery or for the sugar, slightly marginally down. So, sir, is it that the power business is actually making losses right now?
- J.K. Jain:** No, see we had explained earlier why the profits cannot be compared quarter-on-quarter, because Q2 is an offseason. And now all offseason expenses are charged in that particular quarter only. It then comes back to inventory in Q4. So, therefore, you can't compare the Q1 profit which is the production season with Q2 profit. It will vary quarter to quarter.
- Ajit Shriram:** I will just add one thing. In Q2 last year, Q2 2019, the sugar season carried on till middle of June in a couple of factories. So, the power sale was of a higher order. So, that would also make a difference between last year and this year. And that was an unusually long season, that's not desired.
- Pratik Tholyia:** Okay. And sir, what are the power realizations that we have recognized in this quarter?
- J.K. Jain:** From April itself, Pratik, we had started recognizing the reduction of Rs. 2. So, even in April we had recognized, even in first quarter we have taken Rs. 3 and now government has announced Rs. 2.96/Rs. 2.97 per unit. So, that's what we have accounted for.
- Pratik Tholyia:** And sir, what is the realization in the ethanol business, average realization for the quarter?
- J.K. Jain:** Rs.42/43 a litre, so it keeps reading depending upon where we deliver. But it is between Rs. 42 and 43 a litre.

- Pratik Tholiya:** That is for Q2?
- J.K. Jain:** It is on a yearly basis, so it remains in that range only. It doesn't change.
- Pratik Tholiya:** What I mean to say is that there is no B-heavy contribution in this quarter?
- J.K. Jain:** We didn't do any B-heavy in the last season.
- Pratik Tholiya:** Understood. And sir just lastly, in the ethanol itself, so OMCs have given out some 511 crore liter tenders this time. I think the overall industry does not have enough capacity to meet this requirement. So, how does the industry now look at, because the government's message is loud and clear that you manufacture ethanol, you sacrifice sugar and we are ready to absorb everything. So, how do you think the industry is going to respond to this clear message of the government, are you seeing any further CAPEXs, and especially after the given point in time in B-heavy availability will be a problem. So, then the industry to meet this requirement will have to move towards direct sugarcane to ethanol route. So, is there anything that we are also looking at going for the direct sugarcane route, and is there anything more from the industry side? Because the message is pretty loud from the government that 511 crore liters is quite a number already. So, what are you all thinking and what is the industry thinking about this?
- Ajit Shriram:** So, Pratik, I think the government has given a very strong message, like you said, of this 511 crore liter this year, vis-à-vis 329 crore liters last year. One. Two, what we see is that because the government has come out with this policy of three different prices for C-heavy, B-heavy and cane juice, last year the number of people who actually supplied cane juice and B-heavy were relatively limited. So, in the current tender we see a larger number of people opting for B-heavy route, as well as cane juice route. So, as far we are concerned, we plan to do a combination between C-heavy and B-heavy for our factories.
- Pratik Tholiya:** Okay. But sir, even with B-heavy I don't think we can reach this 500 crore liters number. So, any plans to move towards.
- Ajit Shriram:** See, one is, new capacities are coming in like ours also, number one. Number two, we see roughly 1.5 million tons of sugar getting diverted through the B-heavy route to ethanol. So, what happens is, because richer molasses will go through the distillery, more production of ethanol will take place in the same plant. So, the tendering process is still on, the tenders have been given in but they have not been opened yet. So, we don't know exactly how much has been entered against the 511.
- Pratik Tholiya:** Okay, understood. But there are no plans to move to a direct sugarcane to ethanol route?
- Ajit Shriram:** For us, we have not planned anything directly as yet. However, just to clarify further, with our current plans of making ethanol from B heavy, we will divert roughly 5 to 6 lakh quintals of sugar to the ethanol route.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Sir on the caustic front, our volumes have been growing as well as you mentioned that the imports have also gone up. So, which is the consumer industry downstream which is taking up so much volume?

- Ajay Shriram:** The volume growth in caustic are in 3, 4 industries which are the larger ones. One is the aluminum industry, alumina, their requirements are fairly large, and they actually have been importing a lot. They are importing caustic, but they are large consumer of caustic in the country. Second is paper, the offtake has been a little lower than it was in the last year due to recycling of paper which started now and third for caustic is the textile industry. There also, the consumption is fairly large and of course there is like Grasim and others, they use it for the viscose fiber and they use directly over there. They are also large consumer of caustic.
- Rohit Nagraj:** In terms of the ECU for the month of October, how are we seeing that, is it in line with September or are there any changes during the last maybe a month or so?
- J.K. Jain:** I do not think we still have the numbers for October. We would collect it in a day or two. But broadly as we have said, these are range bound movements which are happening continuously, little up, little down.
- Rohit Nagraj:** And on the Chlorine front, we had mentioned in our earlier calls that we are planning for a downstream project and we are still looking at some options. So, anything finalized yet?
- Ajay Shriram:** We have done as we had mentioned last time also that this is a serious approach the board has taken and our company has taken and we are studying various alternatives to see how we become a value-added player down the line. We have not yet got any approval from the board what we want to do, but this is a serious direction we are looking at.
- Rohit Nagraj:** So, maybe in a quarter or so we will have something concrete or probably some plan to go ahead?
- Ajay Shriram:** I think in the future we will have better clarity what our direction is going to be, yes.
- Moderator:** The next question is from the line of Riju Dalui from Quantum Securities. Please go ahead.
- Riju Dalui:** Sir my question is on the caustic soda prices. So, right now, we are witnessing huge import for caustic soda, globally is there any kind of demand slowdown or like globally is there any new capacity that came for which we are seeing some kind of imports?
- Ajay Shriram:** I think globally, there is an impact in terms of, if you see a lot of GDPs of many countries across the world, their GDP growth is lower this year than it was last year. That has had an impact because of which the international prices of caustic has come down and that is impacting India and India, the imports have gone up because many manufacturers have got the BIS approval from the Government of India. So, they can export into India and because the prices are lower that is always the competitive and you know that import duties on caustic are not there. So, we have to compete with the world. So, I think that is where the prices at the moment are little under pressure.
- Riju Dalui:** So, sir you were saying that globally, so there is a demand slowdown for which we are seeing imports in India. So, there is no additional capacities that is in the global front?
- Ajay Shriram:** In the global, it is not too much, I think nothing too much is happening on the global side, but yes the capacity addition happening in India. I think that is something over the next few quarters there is going to be some capacity addition because do not

forget last 6-7 quarters have been a very good price and commodity that is how the play goes. When you have a good price and people look at it on the long term, so I think the focus we are giving in our company is very strongly towards are we competitive on the cost front and we have to compete globally plus we have to compete with our Indian neighbors and players in India. So, that is why we are looking at these power plants in Kota as well as in Bharuch and expansion in Bharuch, our cost of production will go down. So, we will become more competitive.

Riju Dalui: Sir globally as per your estimates or like as per your data sir, how much capacities are coming in like next 1 or 2 years or like 3 to 4 quarters period?

J.K. Jain: It is not exact data, but what we understand is major capacity additions nowadays are happening in India only. So, whatever India adds which is about 1 million in the next 2-3 years, we will see global capacity going up plus couple of plants coming in South East Asia. So, that is what is the announced plan, something more can happen.

Ajay Shriram: Global growth actually has come down to about 1.5% compared to what it was earlier about 2.5%. So, I think that is the impact of all world economies having that impact, that is why global growth is down also on caustic.

Riju Dalui: In chemical business, how much power we require, only for caustic soda?

J.K. Jain: Caustic Chlorine is a joint product, as you know. So, therefore, the joint power consumption will be about 2300 units per tonne of caustic.

Ajay Shriram: I think because we have a chlor-alkali capacity of 500 TPD plus 1300 TPD. So, I think our requirement almost for 180 MW.

Riju Dalui: Sir how much would be the captive power plant we have from 180 MW of requirement?

Ajay Shriram: In Kota, we have a total generating capacity of 130 MW which is used for our PVC business also, fertilizer business also, cement business also and caustic soda chlorine business also. So, part of it is used in Kota for chlor-alkali. In Shriram Alkali & Chemicals in Gujarat, in Bharuch, there production capacity today of our plant capacity is ~1350 TPD, power plant is 115 MW today. So, that is totally 100% going into caustic soda production.

Riju Dalui: We have only 180 MW of requirement that we are sourcing only from captive?

Ajay Shriram: What we have is we have additionally approximately 50 tonnes per day production capacity at Kota for which we do not have captive power available and we have maybe a couple of 100 tonnes caustic soda capacity in Gujarat where we do not have captive power plant available which we were buying from the Grid but because of the prices being lower, we stopped that manufacturing, so that we are using our own power which is a low cost power than the grid power. So, we are using 100% captive power today for caustic soda chlorine manufacture.

Riju Dalui: Sir in chemical business, there is no room to improve the power cost?

Ajay Shriram: There is because we are putting up the 66 MW power plant in Kota which will be commissioned by December this year and we will stop 50 MW of old power plant at Kota. So, then we will have 100% availability of low cost power for Kota.

- Riju Dalui:** Sir 66 MW power plant that you are going to commission by this December, it would be coal based power plant?
- Ajay Shriram:** It is a coal based power plant.
- Riju Dalui:** So, 60%-70% kind of PLF that we can expect?
- Ajay Shriram:** PLF is much higher. Our PLF runs about 90%. We run it consistently flat out like with any other plant. There is no fluctuation in demand. We run it flat out, like the production plants consistently.
- Riju Dalui:** Sir after commissioning these 66 MW of power plant, so how much cost we can save from the power? I think our 40% cost would be power cost?
- J.K. Jain:** I think the way to look at it is that we are investing about Rs. 250 crore on this and we expect about 20% to 25% return on that investment on an annualized basis because of cost reductions.
- Ajay Shriram:** Because of the power cost being lower.
- Moderator:** Thank you. The next question is from the line of Sanjay Manyal from ICICI Direct. Please go ahead.
- Sanjay Manyal:** Just a few questions on the sugar business. So, after this commissioning of new capacity of 200 KLD, what would be our total volumes which we can do see in financial year?
- Ajay Shriram:** 350,000 liters a day will be our production capacity of ethanol. So, one can calculate on that on 330 days.
- Ajit Shriram:** So, we will be producing between 11 to 12 crore liters between these two plants on full capacity basis.
- Sanjay Manyal:** So, do we require additional molasses from outside or we will produce our own molasses?
- J.K. Jain:** So, we will explore all the options depending upon the economics of we are thinking of B heavy molasses also as Mr. Ajit Shriram just explained and if there is requirement, we will explore purchased molasses if it is available at economical prices.
- Sanjay Manyal:** Does that calculation of 11-12 crore includes the 16% reserved for the country liquor?
- J.K. Jain:** That is nothing to do with ethanol production, that is on the molasses. Ethanol production is independent of that particular group. It only affects the molasses availability, does not affect ethanol production.
- Sanjay Manyal:** But sir, this will reduce your internal feed stock?
- J.K. Jain:** Right. So, it reduces our C-molasses, but then particularly this reservation right now is not applicable if you are consuming all molasses internally. So, since after this distillery, we will be consuming all molasses ourselves. This will not be applicable right now unless the policy changes.

- Ajit Shriram:** So, basically the government has given the option of supplying molasses for country liquor or ENA. So, we will probably be going by the ENA route as net realizations will be better.
- Sanjay Manyal:** And realizations will be somewhere around Rs. 30-35 per litre with ENA?
- Ajit Shriram:** Rs. 32.
- Sanjay Manyal:** Just one more thing. So, in UP, we have heard that Maharashtra will be producing 4 to 5 million tonnes lower, maybe 4 million tonnes lower than last season. What would be the UP? What is the sense of the UP production, will it be lower or it will be the same or how different it could be?
- Ajit Shriram:** As I had mentioned earlier that this year, the number of ethanol manufacturers will be using a large quantum of B heavy molasses for making ethanol. So, at this point, it is difficult to quantify exactly how much UP will manufacture. There is a ISMA meeting next week. So, we will have a much clearer picture of UP, Maharashtra and the other parts of the country as to how much sugar we manufacture, but as mentioned the Chairman's remarks in the beginning, the total estimate as of 2 months ago was roughly 28.5 million tonnes.
- Sanjay Manyal:** After this commissioning of distillery, do we have any other plans. If we suppose want to do directly from the sugarcane juice, do we have any other plan to increase the capacity further because there are multiple smaller players who are probably not taking CAPEX and probably, we still have the opportunity to source molasses from them and produce ethanol. So, do we have any plans for the further CAPEX in distillery side.
- Ajit Shriram:** Basically, we will evaluate this further, but as of now we do not have any direct plan to take the cane juice for manufacture of ethanol because keeping quality or keeping volume, of cane juices is very limited.
- Sanjay Manyal:** And the price of Rs. 59 is equivalent to, what would be the equivalent price of sugar in that sense?
- Ajit Shriram:** About Rs. 31 – Rs. 32 of sugar.
- Sanjay Manyal:** So, still it commercially does not make much sense as of now to do from the sugarcane juice?
- Ajit Shriram:** We are seeing the possibility of maximizing our B-Heavy for making ethanol. So, we produce less sugar to that extent and then that will also help in easing our capital employed and working capital.
- Sanjay Manyal:** And sir just one last thing on the export side. What is the quota for the exports and what kind of quantities we will be exporting?
- Ajit Shriram:** So, our quota for exports is I think roughly 125,000 tonnes and we plan to export the entire amount.
- Sanjay Manyal:** So, is it possible that we can go for more than that or any other player you think the industry can decide to export higher than the allotted quantity?
- Ajit Shriram:** No, this is supposedly the maximum export allowed per company or per factory and as of the current government notifications, you cannot exceed this quantum.

- Sanjay Manyal:** Even the fact that some of the smaller players are not exporting, they can sort of redistribute this quota?
- Ajit Shriram:** They can redistribute among themselves, but as far as DCM Shriram as a company, we got quantified maximum quota which we cannot exceed.
- Moderator:** Thank you. The next question is from the line of Anant Bhavnani from Unifi Capital. Please go ahead.
- Anant Bhavnani:** Sir, with regards to the capacity that we could not run in caustic soda due to lack of competitive power, what would be that volume like if you can give us sense of what is our current production and what production in tonnes per day we had to let go off because of power.
- J.K. Jain:** I think it is about 250-300 tonnes. We have a capacity of 1850 tonnes and we achieve average capacity utilization of 92% or so and we are running at about 1460/1470 tonnes right now.
- Anant Bhavnani:** Now, just trying to understand once this power CAPEX is done, we will be back to this 1850 tonnes run rate, is it?
- J.K. Jain:** I don't think it is related to power only. Power is one of the factor as CMD explained that ECUs are little soft right now. If ECUs had to pick up, then we will resume this production.
- Anant Bhavnani:** And you mentioned about Rs. 1070 crore CAPEX, so can you help me understand apart from power CAPEX of Rs. 250 crore what would be other areas where the Rs. 1070 crore would go?
- J.K. Jain:** This Rs. 250 crore power I mentioned about the power plant that we are commissioning in December this year in Kota. This Rs. 1070 crore is what we are going to incur in Bharuch which includes 700 tonnes per day caustic capacity and 120 MW power plant.
- Anant Bhavnani:** That is entirely for Bharuch?
- J.K. Jain:** Correct.
- Moderator:** Thank you. The next question is from the line of Parth Garg, an individual investor. Please go ahead.
- Parth Garg:** My question is on caustic soda front. Since a lot of players are expanding their capacities, so how do you think that these capacities will be absorbed?
- Ajay Shriram:** I think as we mentioned in the beginning, in commodities when they see a good cycle, then people get into this, so yes we do feel next couple of quarters they will be under pressure but many companies today are looking at converting to flakes and exporting flakes which goes into the international market which is one way of reducing the pressure on the domestic market. So, I think that is one direction the industry is also looking actively at exporting lye on a longer term basis. Some of the caustic lye may also go out and the industry is also working on meeting of bulk users like aluminium industry, etc. Can we have agreement with them to supply caustic lye at a competitive price to the landed cost of imported caustic, so that the pressure comes down. So, I think there are multiple avenues which the industry is looking at but for couple of quarters, we do feel that the prices will be a little bit under pressure which is there in any commodity.

- Parth Garg:** So, there is a link between this price drop which is happening over here and expanding capacity? I just wanted to know the capacity is now expanding, the relation between the price drop and this is there or not?
- Ajay Shriram:** No, there would be some, because salability goes up but I think everyone who is expanding also know that if they all want to dump it in the market in India, the pricing will fall further, so everyone is seeing how to export and how to make sure that the prices don't just take the downward trend and they stabilize and it is good to see last couple of months, prices have somewhat stabilized which is a positive direction.
- Parth Garg:** So, we expect that from the third quarter onwards, we will be getting somewhat in good power going right?
- Ajay Shriram:** No, I think frankly we are hoping as we said at the beginning, we expect next couple of quarters do not really see prices going up but even they are stable, I think that is the good direction.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.
- Amar Maurya:** Happy Diwali to the entire management team. Sir, my question was a little bit book-keeping if it is possible for you like, earlier we used to share the separate revenue and EBIT for the sugar, power and distilleries and I believe now we had combined it in one. Is it possible to share that number for you?
- J.K. Jain:** Amar, we had explained when we changed the practice that since those profits depend more on what practices you follow for transfer pricing of byproduct which could vary from company to company, so we felt it would be better to look at it as an integrated business now rather than individually. So, that has been explained to the investor, so we would request please start tracking as an overall EBITDA margin other than individual and we will be explaining to you the factors which are driving those overall margins.
- Moderator:** Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.
- Ashok Shah:** Sir, my question is regarding this, what is the last full year average caustic prices and current caustic prices?
- J.K. Jain:** Full year if I remember correctly was about Rs. 32,500 to 33,000 per tonne but I will check and confirm that to you. I am not 100% sure.
- Ashok Shah:** And current price?
- J.K. Jain:** Current prices as we have given in our chart, September end was Rs. 26,000 per tonne.
- Ashok Shah:** And second question is regarding our Fenesta brand, so how many branches we have opened? Do we have a franchisee model or what is the model?
- Vikram Shriram:** No, it is not a franchisee model. We have an integrated end-to-end model where we have for the purpose of sales and marketing we have dealerships in 200 locations or cities and towns in India, but we extrude our own profiles and we have 3 fabrication shops in Chennai, Hyderabad and Bhiwadi outside Delhi and the windows are tailor made and customized here and shipped to the respective

destinations for instillation. We do the instillation also ourselves, so it is completely integrated model.

Ashok Shah: And what is the sale of this till date, approximate idea?

J.K. Jain: I think you don't have the copy of our presentation?

Ashok Shah: No, I have not gone through it since many...

J.K. Jain: Last year sale brought about Rs. 227 crore for Fenesta business and just going back to your earlier question, ECU realization for last year was Rs. 35,700 per tonne.

Moderator: Thank you. Ladies and gentlemen that was last question. I now hand the conference over to the management for their closing comments.

Ajay Shriram: Ladies and gentlemen, we thank you for your participation in our Q2 and H1 financial year 20 earnings conference call. We continue to take initiatives to improve our earning profile by taking steps for higher volumes, lower cost and development of multiple revenue streams. We believe these efforts will deliver sustained growth and shall strengthen our competitiveness going forward. We also focus on employee development across all levels and use our modern technology to improve efficiency and enhance customer engagement. We are confident of delivering sustained topline and bottomline growth with the strong balance sheet along with strong organization. Once again, thank you very much for joining us today at this earnings conference call. Good bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of DCM Shriram Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.