



DCM Shriram Limited

Q4 FY21 Earnings Conference Call

May 07, 2021

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY21 Earnings Conference Call of DCM Shriram Limited. As a reminder, all participants' 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 your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you, and over to you, sir.

Siddharth Rangnekar: Thank you. Good evening and thank you for joining us on DCM Shriram Limited's Quarter 4 & FY'21 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, Mr. K.K. Kaul – Whole-time Director and Mr. Amit Agarwal – CFO of the Company.

We will commence the opening remarks with 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 and his views going forward. Over to you, sir.

Ajay Shriram: Thank you Siddharth. Good evening everyone. Thank you for joining our earnings conference call for the Q4 & FY 2021. I hope all of you and your families are keeping safe and healthy, these are difficult times and we need to be very cautious.

I will share my thoughts on the operating performance and strategic direction of our businesses. After that, Vikram will give the financial perspective.

Over last couple of years our strategic direction has been towards strengthening each of our businesses through integration, scale, optimizing costs and rationalization. These steps bode well for growth of our businesses. Chemicals business has grown in scale along with steps being taken towards downstream and value-added products as well as cost optimization. Sugar business has grown in scale and integration and is more stable. Shriram Farm Solutions has closed its Bulk Fertilizer business and has grown the value-added portfolio. Bioseed has closed two of its loss-making International operations and the product portfolio in India has enlarged. We will continue our steps in this direction to deliver growth.



On the operating front, our businesses have managed the Covid-19 pandemic in the last year with lot of agility, which is reflected in the healthy performance during the year.

Now we are facing another wave of calamity - the second wave of Covid-19, which is again making the economic environment uncertain. We are hopeful that we should be able to come out if it much stronger. Our comfortable Balance sheet, Cash flows and diversified businesses, allows us to handle uncertainties better and enable us to continue our focus on growth.

Now, I would like to share with you the business wise developments.

Sugar:

India is structurally a Sugar surplus country with annual production at around 30-31 Mn Tonnes and consumption at close to about 26 Mn Tonnes. Policy support by the government in terms of Sugar exports and B-Heavy Ethanol production has helped keeping sugar stocks at reasonable levels. Our Company now has two distilleries with total capacity 350 KLD distillery to produce Ethanol, which has along with overall government policy framework, provided stability to the business.

Government of India has aggressive plans with respect to the ethanol blending program and intends to achieve the target of 20% blend by 2025. This has opened up new investment opportunities for the Sugar Industry. The present ethanol supply year 2020-21 has seen this rate reaching ~7% by March'21.

In FY21 we have sold 1,251 lac ltrs of ethanol for year 2020-21 with ~ 60% on B-Heavy molasses versus 597 lac ltrs last year with ~45% on B-Heavy. This is a result of the Ajbapur Distillery commissioned by end of Q3 last year.

Cane crushed during the Sugar Season 20-21 was at 553 lac qtls vs 598 lac qtls in the last year. The availability was lower given lower yields. Cane recovery on final molasses stood lower at 11.7% vs 11.9%. The reason for lower yields and recovery was unfavorable climatic conditions. Total Sugar produced in the current season was 57.9 lac qtls vs 66.3 lac qtls last season.

We have contracted and sold large part of our 12.5 lac qtls quota for exports for Sugar Season 21. Sugar inventories as at March 31, 2021 stood at 31.3 lac qtls as compared to 43.5 lac qtls at 31st March, 2020. Higher sugar volumes in domestic as well as exports and Ethanol production through B-Heavy molasses contributed to inventory reduction.

Chemicals:

By the end of the March'21, Caustic soda demand from downstream industries had reached near pre-pandemic levels, with ECU prices showing QoQ improvement by 10% with a month on month increase. Utilizations levels were at an average of 79% in Q4, touching a high of ~90%. International prices also witnessed an uptrend, however their sustainability is yet to be seen. Products like Hydrogen, Aluminum Chloride and SBP had a positive impact on earnings.

The investment in downstream products announced in Q3 FY'21 will add substantial strength to the business. Our new 120 MW Captive power plant will add to earnings driven by cost efficiencies. Our value added growth areas, Epichlorohydrin and Hydrogen Peroxide expansions are on track as per plan.



Expansion of the aluminium chloride plant, we already have 60 tons a day that's under expansion and that's moving forward satisfactorily.

Vinyl / Plastics:

Plastics business had high earnings this year led by global supply disruptions from mid Q2 onwards leading to increasing trend of international prices for both PVC and Carbide. India imports almost 55-60% of its PVC and Carbide demand and hence closely follows international prices. The business also benefited from efficiencies owing to new power plant at Kota and higher capacity of PVC as a result of debottlenecking done last year.

Agri Inputs:

The segment covers Shriram Farm Solutions, Bioseed and Fertilizer businesses. Q4 is a small season for Shriram Farm Solutions (SFS) and Bioseed business. For the year, SFS witnessed good growth across its product portfolio with major growth in wheat segment where it is the market leader. Bioseed has broad based its product portfolio over last few years to reduce dependence on any single crop. With its strong research base it is poised for good growth in the medium term.

Fertilizer business witnessed a fundamental change in the Capital employed in the business. The fertilizer subsidy outstanding was at multi-year low due to the additional subsidy allocation announced by the government during the year. This is expected to be sustainable.

Fenesta:

Fenesta witnessed good traction in second half of the year, reaching pre-covid levels of business. Trends in order booking, in retail as well as projects segment have been encouraging. The business is focusing on UPVC as well as System Aluminum, and is looking forward to enhance its product portfolio. The brand has retained its premium market positioning. Fenesta will continue its focus on improved service and product offering along-with geographical and channel expansion in both UPVC and Aluminum Segment, to accelerate growth.

The new wave of Covid-19 is posing new challenges, the impact of which is yet to be ascertained. As a company we continually take initiatives to deliver consistent and growing performance over the medium term. Our operations today have better resilience as a result of steps already undertaken and will get stronger with the new initiatives planned.

With this, I would like to now request Vikram to share thoughts on the financial performance.

Vikram Shriram:

Thank you. Good evening everyone. I will take you through the financial highlights for our Q4 & FY21 results.

During the quarter, net revenues came in at Rs. 2,191 crs vs Rs. 1,917 crs in Q4 FY20, higher by 14% YoY. The growth was driven by healthy performance of Sugar, Vinyl and Fenesta Business. Last year there was impact in Q4 on volumes of our Vinyl, Fenesta and Chemical business as a result of Covid-19 related lockdowns, announced in March 2020.

Coming to segments, overall sugar business revenues were up 22% YoY. Exports stood at 10.8 lac qtls vs 4.6 lac qtls last year, this is more of a timing difference

since on half year basis the export nos. are similar. Distillery volumes were higher by 51% at 311 lac ltrs along with better realizations.

In the Chemical business, revenues remained flat. While Chlor-alkali volumes were higher by 7% YoY, ECU prices were down 12% YoY. However, on a QoQ basis, ECU prices were up 10%, with upward trend seen throughout the quarter. Plastics business recorded a strong growth of 109% YoY in revenues. PVC prices were up 70% and volumes were up 67%. The prices continue to be firm, in line with international prices, however as global supplies stabilize, the prices also will normalize. Carbide volumes were down 66% to accommodate incremental PVC production. Owing to its swing capability the business was able to switch from carbide to PVC, which was offering better return.

Q4 is a short season for SFS and Bioseed hence their revenues are small with some variations.

Fertilizers revenues were down 28% YoY. One reason is that gas prices were low, which is a pass through and the second is that last year there was reversal of provision with respect to fixed cost reimbursement under NPS III.

Fenesta business continues to record healthy numbers, with revenues up by 40% YoY. The order book had a strong improvement of 20% YoY and 25% QoQ, a healthy sign for this business.

Coming to profitability, in Q4 FY21, PBDIT stood at Rs 392 crs, higher by 10% YoY, supported by Sugar and Plastics segment. The new efficient 66 MW power plant at Kota commissioned in Q4 FY20 translated into healthy savings in costs at Kota complex. Sugar PBDIT was up 12% YoY driven by better realizations and volumes from Ethanol and Sugar exports. Domestic volumes and realizations were lower. Chemicals PBDIT was down 8% YoY primarily due to lower ECU, although volumes were better.

Plastics PBDIT stood at Rs 127 crs vs Rs 26 crs driven by better margins due to higher product prices. Fertilizer PBDIT stood at Rs 4 crs vs Rs 76 crs on account of provision of Rs 53 crs up to Dec'19, which was reversed in Q4 FY20 as discussed above. Bioseed PBDIT stood at -ve Rs 38 crs vs -ve Rs 14 crs primarily due to provisions and write off made for slow moving cotton seed inventory and higher fixed expenses.

Let me also share highlights of the performance for FY21.

Revenues were up 7% YoY at Rs 8,308 crs mainly driven by sugar, plastics, and SFS segments. Sugar business revenue was up 34% primarily driven by higher Sugar volumes Domestic as well as exports, overall at 78 lac qtls vs 63.7 lac qtls last year. Ethanol volumes at 1,251 lac ltrs vs 597 lac ltrs last year. Plastics business revenue was up 32% driven by higher product prices. SFS revenue was up 13% resulting from growth across product categories of value added segment primarily seeds.

PBDIT for FY21 stood at Rs 1,244 crs vs Rs 1,295 crs primarily as a result of lower earnings in the Chemicals business led by lower prices and volumes. The impact of lower prices of Chemicals was significantly mitigated by higher prices of PVC. Sugar and SFS business contributed positively because of the factors stated above.

On the Balance Sheet side, Net Debt as at 31st March 2021 stood at Rs 180 crs vs Rs 1,623 crs at 31st March, 2020. The key reason for reduced debt was lower Sugar inventory and fertilizer subsidy as well as prudence exercised by the

Company on Capital expenditure given the uncertainties during the year. Overall ROCE came in at 18.0% for FY21 from 19.8% for FY20 impacted by Chemicals and restrictions on business operations in Q1 due to Covid-19 led pandemic. ROCE improved sequentially from 17.4% in Q3 FY21.

Board recommended final dividend of 190% amounting to Rs 59.3 crs. Total dividend for the year is 465% which is 21.5% of PAT in line with the last year. Overall, on a full year basis, our performance, despite the unprecedented environment, has been quite resilient. We are happy with the progress that we have reported during the year including reduction of net debt. On the whole, we have a robust balance sheet position and will ensure healthy liquidity position; at the same time carrying out all the capital expenditure programs which are under way.

This brings me to the end of the financial discussion and we will be happy to take questions that you may have. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of from Rahul Veera from Abakkus Asset Managers.

Rahul Veera: Congratulations on the wonderful set of numbers. Just have couple of questions, first is regarding the Bioseed. What is our portion of cotton within the Bioseed, largely is cotton based only? And second question is what is the strategy that we are going to adopt going forward because everyone with a good monsoons and good cotton acreage here also we are hardly doing 1% EBIT margins. What is the thought process there?

K. K. Kaul: Cotton is still the predominant crop that we are having but unfortunately the competition there, whereas one of the cotton hybrids is doing pretty well and it's affected all the other ones. But we are coming up with new hybrids and these hybrids are doing fairly well and we are now in the process of scaling up those new hybrids and they will compete very well with the current competition.

Rahul Veera: Also, there has been a recent price increase by the Indian government for the seed packets.

Ajay Shriram: Could you kindly repeat that question?

Rahul Veera: There has been a recent price hike that was announced by the Indian government for the cotton seed packets. Will that have a positive impact for us as well? There will be some rub off for us. Or we are going to go for more market share and pass on all the benefits to the distribution chain?

K. K. Kaul: We are looking forward to this year and of course a larger coverage is expected to be on the cotton this year. So, both the larger coverage on cotton as on the acreage going on cotton and the price both will improve basis this. And as I said, some of our new hybrids are doing extremely well and we hope to scale them up in this year, in this current CY.

Amit Agarwal: Just adding to what Mr. Kaul said. Our product portfolio also today is much wider. So, corn and paddy today form almost 50% to 60% of our revenue and cotton is close to about 20%. I think where I am coming from is that it's a much broader portfolio than what it was couple of years back where we were primarily a cotton dependent business. That way it has widened so that's another part of the strategy that we are carrying. So, we are quite prominent on cotton, corn, paddy and vegetable. These are the key crops that we deal in now.



- Moderator:** The next question is from the line of Shalini Vasanta from DSP Mutual Fund.
- Vivek Ramakrishnan:** This is Vivek Ramakrishnan. You have Indicated CAPEX of Rs.1500 crore. Can you give the split across the coming year FY22 and '23 and in the fertilizer business, what can be done to improve profitability given that there is going to be lot of this energy related costs which are going to be penal in nature?
- Ajay Shriram:** Regarding the CAPEX part of it in Q3, well actually even last year, we had taken approval from the board for putting up 120 MW new power plant in Gujarat in Bharuch in our Shriram Alkali & Chemicals, which is under implementation. That will be commissioned by the fourth Q4 of this financial year. Similarly, in the Q3 of last financial year, as I mentioned in my opening remarks, we have taken approval of the board to put up an epichlorohydrin plants, to put up a hydrogen peroxide plant, to expand our aluminum chloride plants and to put our product development center near Vadodara. All this combined is about Rs. 300 crore CAPEX. And as I mentioned power plant is under implementation. For the other two aluminum chloride we already got it in phases, we have 60 tons today by I think another 3 months' time we will increase that to 75 tons and by another 6 months after that they go to 150 tons. So, that will also expand over there. The epichlorohydrin and H₂O₂ these two plants, has just been approved in Q3 last year. We now are working on technology, working on the various advisors, various design consultants and all that's our staff so moving as per plan and that's expected to be commissioned if I am not mistaken in early '22-23. I think they are moving as per plan; this is our CAPEX plan. Regarding the fertilizer policy, I will ask Mr. K. K. Kaul. K. K. could you just please brief on the fertilizer?
- K. K. Kaul:** You know that the energy norms are normative, and these norms have been set for each manufacturer and as a strategy to maximize our profitability, we continuously work on the energy consumption. Every year there we achieve some energy reduction. It's a different matter that after a period of time, the energy norms are again revised downwards but today also we have a significant portion of our saving coming from the energy and that's a continuous focus. Every year there are investments made to reduce the energy and also optimizing the operations. The other thing that we optimize for profitability is to maximize the production. We also tend to produce more than the reassessed capacity. So, that gives us an additional profitability.
- Moderator:** The next question is from the line of Siddharth Mohta from Principal India.
- Siddharth Mohta:** My question is on sugar division. I am very surprised to see that there has been no announcement from the company on any further expansion on the ethanol. The last capacity announcement that we have done, it was 3 years ago even though the capacity that's come in Quarter 4, FY20. What is stopping company to be bit aggressive in the ethanol segments and all the entire sugar players, they have announced their capacity. Some of them there had quite clear.
- Ajit Shriram:** Siddharth just to clarify over here, 3 years ago the distillery capacity in our company was zero and within a span of 36 months, we have come from zero to 350 kilo liters per day. And we are looking at options to debottleneck by 10-15-20 kilo liters at this point of time but we are on the ball and we are alive to the situation and we are looking at different raw materials and mixes. Be it C-heavy or B-heavy or cane juice to further enhance our output. I hope this clarifies.
- Siddharth Mohta:** I do appreciate that, in the last 3 years company has put up the capacity, my only limited point it was that the last capacity which has come it was in Quarter 4, FY20 and since then it has been like around 15 months. So, there has been no



announcement even though the company balance sheet is excellent and there has been lot of initiatives from the government side. Debottlenecking...

- Ajit Shriram:** At this point of time Siddharth, just to clarify, the capacity of our distillery is in line with our crushing capacity. The crushing capacity of the sugar mill and the output from the distillery is balanced.
- Siddharth Mohta:** Do understand that company is spreading out that how we can capitalize on the opportunity which has been presented. I know it's a bit difficult question which I am asking but can we hear something in the coming 6 months on this ethanol front?
- Ajit Shriram:** It will be difficult to say what's going to come after 6 months but as I mentioned to you, we are trying to see how to ramp up our distillery ethanol operations and that the government has been very proactive with the ethanol policy and as has been mentioned in the opening remarks, we have preponed the 20% target to the year 2025. We are allied to this and we will be proactive.
- Siddharth Mohta:** On this Bioseed division side, it has been like 5 years where our entirely EBIT it has been around Rs. 20-25 crore but company commentary, it has been quite consistent that our product pipeline, it is very strong for the last 2 to 3 years. But for now, it is not being reflected in our numbers. What is going wrong actually? 5 years, it is not a very small period, do understand that it is an R&D driven business.
- K. K. Kaul:** You mentioned yourself that's an R&D driven business to scale up the new hybrid, so it does take time and as Amit mentioned a little while ago and answered to another question is that we are also trying to diversify into many other crops also. We definitely expect, now we have new products coming up, not only in cotton. We have the hybrids in paddy, we have in vegetables and we have in mustard and corn also. So, we definitely are in a place much better to scale up those hybrids because the initial experience with the last 1 or 2 years on a smaller scale has been excellent. So, it does take time in these products because this is a dealer research tool and then they have to be demonstrated in the field. But now we are quite hopeful that this year we should be seeing a significant improvement.
- Vikram Shriram:** I will just add one more point to that, is that last year kharif and this year kharif I hope I am not sure, but farmers become risk averse to trying new products due to the uncertainty brought out by kharif. So, in fact other than the market leaders in all segments, new product launches by all players have been somewhat muted last year also. So, this may have a bit of an affect but yes, the pipeline is strong, and it should come up.
- Siddharth Mohta:** Do understand that company generally don't provide future guidance, but on this particular segment, if there is any milestone that we are looking might be for FY23 a rough number it would be very helpful?
- Vikram Shriram:** We don't give numbers, but if there's a normal 22 then certainly it should be significantly better. Unfortunately, this year has already with the second wave of COVID, we are in a phase of uncertainty again somewhat, though it should definitely be better than last year.
- Siddharth Mohta:** Regarding this 700 TPD caustic soda and 500 TPD flaker which company had announced, but it has been put on hold. So, any update on that front even though the capacity it by the March end that you had mentioned that it had touched the high 85% to 90%. So, what's stopping company to go ahead because we debated it's not going to come in three months, it will take some time.

- Ajay Shriram:** You're right. We debated this point a lot at the board we've had lots of discussions on this, and we felt that as a priority, let's put our CAPEX into value-added products because a commodity expansion is possible anytime. There are other people who are already expanding. So, rather than and as it is if I may so, our Gujarat unit in Bharuch, Jhagadia Industrial Estate, it's a largest single location plant in the country. We are in fact, it's very much on our agenda. We will take a view at the appropriate time whenever the board feel so, but we would rather prioritize and put in this Rs. 1000 crore plus these Rs. 400-odd crore of the power plant as a priority.
- Siddharth Mohta:** So, that cash flow continues to be strong, but I will take your point as lot of capacities are coming. In terms of PVC, where we have seen the realisation of being quite high in the March end realisation trading at 132. So, the momentum side it is still there in the month of April and May?
- K. K. Kaul:** Yes, in April the realizations were good but in May with the onset of COVID, it started getting impacted. So, you're not seeing the demand is getting destroyed how it comes up in the coming days is uncertain but overall, there are still supply constraints, but this COVID has impacted the demand. Last few days we are seeing a significant reduction in the demand.
- Siddharth Mohta:** Company has announced the downstream chemical last quarter and you have also touched upon that. Can we expect some more CAPEX coming in a different specialty product or we will wait for this unit to get commissioned which is like 21 months away as of now?
- Ajay Shriram:** You know I'll be honest any company has to measure and continuously as a policy you continuously look at expansion and considering we are so many businesses within the company, something or the other is under the expansion or growth all the time. We are not looking at only one or the other. We look at the whole company comprehensively and see which business can take which project at what time, so we continue with that. So, we continuously to keep visiting, something good comes up, but you have to realize also that at the moment in our Jhagadia Industrial Estate, the total land is going to be used up for putting up ECH and H₂O₂. That expansion is on. I've got a feeling that at least for the next six months we are not going to announce anything else. That's my feeling. If something new comes up, we are alive; we are waiting all the time. It's not that we've taken a full-stop or we've taken a running leap. We are there all the time to see what is best for the company.
- Moderator:** The next question is from the line of Rohit Chawla, an Individual Investor.
- Rohit Chawla:** My first question is with regards to the impact of the COVID on the current quarter, the coming quarter as well as or how it shapes the outlook for the year, especially in the sugar segment and since the situation across the country especially in the rural area also getting severe. So, my first question was in regards to that and my second question was with regards to these plastic prices and how we see them shaping up, will that be able to sustain at this high level or are going to see them flatter down?
- Ajit Shriram:** Regarding the COVID in rural India, what you're saying is right. There is a spread, and our sugar operations have stopped, our crushing stopped on 25th of April in the last factory. We don't really have any impact at this point of time regarding the rural COVID. Our distillery operations are cutting on and there's no adverse impact over there because the raw materials are stored within the distillery and the sugar complex. We do really hope that the COVID situation that's come under control soon and we get out of it.

- K. K. Kaul:** Regarding PVC, yes PVC prices in April were very firm and driven by the supply constraints. The prices in India are globally controlled by the global prices, because we still import about 55% to 60% of the consumption. So, lately, since this onset of the second wave of COVID we are seeing for the last week or 10 days now a significant reduction in demand. How will it shape in the future, it's very difficult to say as we go along? Right now, our capability to produce is not impacted though there are lot of constraints in terms of operating plants, but we are not impacted as of now. But if COVID wave become more difficult than I can't say for sure, how do we go? But the SOP's that we have in place in terms of running our operations, producing those are still working, but demand is impacted and though the international prices are still relatively firmer, and if this had not happened, the price firmness should have continued through this quarter. Now what happens is very difficult to predict.
- Rohit Chawla:** Just one small follow-up, on the PVC business in a normal case what is the margin which we are going peak EBIT margin which we are going to pay operating this?
- Amit Agrawal:** In PVC the operating margins would generally be in the range of around 15% to 20% EBIT margin.
- Rohit Chawla:** Is this in a normal or peak?
- Amit Agrawal:** I am saying in a normal scenario the EBIT margins should be within the range of around 15% to 20%, currently they are significantly higher at around 40%, but in normal yes that's the number.
- Moderator:** The next question is from the line of Sreemant Dudhoria from Unifi Capital.
- Sreemant Dudhoria:** A few questions on the chemical division, first thing I think despite the increase in realizations and revenue in the segment on a sequential basis, there has been a dip in our EBIT margin from about 24% in Q3 to 15%. What has driven this decline on a sequential basis?
- Ajay Shriram:** I think there are two-three things; one is in the last year the ECU prices of caustic soda, chlorine was quite low, they were under pressure. So, I think that has come down, which is one. Secondly, the cost of coal has also gone up because freight became a major issue and if you see international prices of coal that went up quite a bit over the last six months. That is also impacted the margins for that. So, I think these two factors that had an impact in terms of our margins for caustic soda chlorine.
- Sreemant Dudhorai:** So, sir, sequentially the realizations have improved for the caustic soda right, from about Rs. 19,000 a ton to about Rs. 21,000 a ton as we have reported?
- Ajay Shriram:** Yes, it had gone up. In fact, last month it was there, in this month, until about 10 days, 2 weeks ago, it had gone up even further. It went up to (+22) to 23 between that, but I think this impact of COVID is having an impact in all our businesses and in the entire economy actually in India and no one can predict, but the demand is coming down right now. The pull has come down because one is suddenly finding that whether it is the paper aside or whether it is other chemical side, there is an impact because of this COVID and because of partial lockdowns and we don't know what is going to happen, is it going to be an all-India lockdown. No one knows and who would have thought compared to what we experienced last year during the COVID time in the worst times of April, May last year compared to 4 lakh plus cases happening in India now. So, no one can say what is going to happen, but we sincerely hope that we reached the peak and started coming down in our

numbers and the number of infections come down and the management is easier to handle compared to the tough time today. So, in the next 3-4 months, we hope it eases off and economy becomes a little smoother once again.

- Amit Agarwal:** Just to add I think to what CMD just mentioned in terms of fuel costs being higher sequentially as well, also we had a maintenance shutdown at our Bharuch unit, a partial maintenance shutdown, so therefore the fixed expenses were higher and the other reason also was that the downstream products, essentially SBP as well as aluminum chloride, their prices also came down sequentially. So, I think those were the reasons why sequentially the margins were lower.
- Sreemant Dudhoria:** What was the period of shutdown sir, in quarter 4?
- Amit Agarwal:** About 6 to 7 days.
- Sreemant Dudhoria:** And do we still face pressure on our cost of production in the chemicals division or it has stabilized now?
- Amit Agarwal:** To the extent of fuel cost, yes, there are pressures vis-à-vis same period or say FY21 where the fuel prices were lower, currently the fuel prices are higher. In that sense, there is pressure.
- Sreemant Dudhoria:** Similarly, I could also see in our plastic division despite the good increase in the realization sequentially, the EBIT margins have been flattish quarter-on-quarter. Even in that segment, was there any inflation in the cost of production?
- Amit Agarwal:** So, there it was purely because of power cost because the fuel prices went up.
- Sreemant Dudhoria:** Question on our sugar business, while we have exhausted most of our export quota for this cycle, like last year is there a scope to do more exports in the sugar?
- Ajit Shriram:** We are in touch with the government to try and give additional allocation for sugar exports because the original allocation was 6 million tons of sugar and roughly 5.5 million tons has already been contracted and a bulk of this has already been shipped. The prices in the international market are quite firm, so we are in touch with the government, and we are hopeful that they do give us additional allocation.
- Sreemant Dudhoria:** Sir, on the incentives which the government gives on the sugar exports for about 10.8 lakh quintals that we have done so far, a rough calculation seems to be about Rs. 65 crore, is that accounted in our P&L in the last financial year, or we are yet to receive that from the government and not in the P&L?
- Amit Agarwal:** It has been accounted in the P&L, so it is accrued. As soon as we export, the income gets accrued. We may not have received the amount, but we have accrued it in the P&L.
- Sreemant Dudhoria:** And finally, just wanted to reconfirm on the timelines for our downstream expansion for Rs.1000 crore, you mentioned the revenues will start kicking from FY24 sir, is that understanding right?
- Ajay Shriram:** No, Amit, you have the exact date when is the?



- Amit Agarwal:** Sir, aluminum chloride will commence operations in Q1 of next financial year which is FY23 and ECH and hydrogen peroxide will be functional from Q4 of FY23. So, they will have full year the year after, which is FY24.
- Moderator:** Thank you. The next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.
- Pratik Tholiya:** Sir, couple of my questions that I had has already been answered. Just one clarification, Amit sir, you said the coal cost has been going up, so you meant it is Y-o-Y or even Q-o-Q it has been going up?
- Amit Agarwal:** Q-on-Q.
- Pratik Tholiya:** So, what is the fourth quarter, even right now, it is higher?
- Amit Agarwal:** Yes.
- Pratik Tholiya:** And sir, secondly just on the sugar side, just another clarification, did you mean that after the expansion of ethanol to 350 KLPD, we are fully integrated in terms of whatever molasses we are producing on the B-heavy side and there is no further scope for adding capacity on distillery?
- Ajit Shriram:** Last year, we did lower percentage of B-heavy, and we were able to purchase some C from the open market; however, this year these increased our B-heavy percentage to the maximum possible and also we don't expect to be able to get C heavy at an economical price. So, to that extent we are fully integrated, at this point of time.
- Pratik Tholiya:** Sir, there are some of the other companies who are also now fully integrated and decided to sacrifice some of their sugar production and are putting up direct juice through the plants, so have we thought in that direction and also because the government has now allowed producing ethanol via other feedstock such as grains and some other products, so have we been tricking on those lines because clearly like you have already mentioned and some participants have also asked, there is no pressure on the balance sheet front and in terms of?
- Ajit Shriram:** Regarding using juice or syrup as a feedstock, this is primarily being done in Maharashtra and North Karnataka and also in South India. UP does not allow use of juice or syrup at this point of time as per their excise policy. However, we are in constant touch with the UP government and the authorities to allow the same and we hope that before the next season starts that this permission will be given and then there will be a further scope to divert further sucrose into ethanol and reduce the sugar production and improve our cash flows, improve the entire bottomline.
- Pratik Tholiya:** Sir, because I thought one of your competitors in East UP has already been putting up additional 300 KL plant via the direct juice route?
- Ajit Shriram:** Yes, that has been announced nearly a year ago, but I don't think much has happened on this.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** My first question is in terms of the total PVC, what would be our market share in the domestic market, I presume ours will be entirely domestically sold, right?



- Ajay Shriram:** India imports 55 to 60% of its requirement, yes we are selling only in the domestic market.
- Achal Lohade:** So, what is the market share for us in terms of the domestic consumption?
- K.K. Kaul:** It is a very small market share of 3 to 4%, so we don't have a very large market share.
- Achal Lohade:** And how have been the volumes according to you in terms of the import for the entire full year FY21, sir? Has that come out sharply in terms of the volume?
- K.K. Kaul:** In the month of April, yes they had increased to what we had seen in the previous year 19-20, but in the month of May, there has not been much import because the consumptions have dropped.
- Achal Lohade:** What about full year FY21 sir? 2020-2021?
- K.K. Kaul:** There was an import of roughly about 1.4 million tons in 2021 and a domestic production of about 1.36 million tons, so the consumption was also lower at 2.8 million tons compared to the previous year because fewer months we are affected by the impact of the COVID.
- Achal Lohade:** And with respect to PVC price, you said currently prices are stable, have I got it right, sir?
- K.K. Kaul:** Recently, there has been a reduction by roughly about \$50 about a week back, but as I said the consumption is not there, so we don't know this reduction is not even helping in creating the consumption because consumption is reduced because of other reasons because the downstream industries who use that are in fact..
- Achal Lohade:** Sir, what is in terms of the expectation given the current situation we have in terms of the global market, the producers, are they coming back on stream? What is our opinion, are these factors here to stay or you are saying there could be a sharp moderation anytime soon?
- K.K. Kaul:** Very difficult to say because it has been just 2-3 weeks since this has started happening and we don't know when it is going to end and how it is going to end because this time it is a little different. It has not only hit the big cities; it has hit the rural areas also and in fact it is also different. Right now, we are impacted as I said substantial reduction in demand, but at the end of the month or next 2-3 weeks, we see some relaxation in terms of the restrictions that have been put in various states. If that improves, hence the consumption should also improve, but right now it is very difficult to predict because we can't forecast.
- Achal Lohade:** In terms of the global size, any color you can provide in terms of how the production shaping up there, have those US and gulf plants come back in stream or they still shutdown?
- K.K. Kaul:** There were still constraints on the supply side before this COVID thing happened here, the expectation was the firmness in prices will continue through the Q1 and may be part of Q2 also, but India is again, it is also an influencer in the global consumption also. So, whether that is going to have some impact on the global prices, as I said last week, they dropped the prices by \$50, so that is something which we will have to see as we go along.

- Achal Lohade:** The ethanol production through the sugarcane route is still not permitted in UP?
- Ajit Shriram:** Yes, so the excise rules do not permit use of sugarcane or syrup for ethanol as of now in Uttar Pradesh, but we are in touch with the government authorities to give us permission for the same.
- Achal Lohade:** And is it the case for even other feedstock or just for sugarcane?
- Ajit Shriram:** There are three levels of purities which go into the distillery, one is the C-heavy molasses, the other is the B-heavy molasses. For these two different purities, permission is there, and we are making the ethanol from these two alternatives however, for sugarcane juice or sugar syrup, which has a much richer sucrose content, at this point of time, permission is not available, and we are talking to the available people to allow the UP millers to make ethanol from this route.
- Achal Lohade:** And just a clarification, in terms of the sugar price, how are the current sugar realization and how are they about 10 days back? Have you seen any moderation in the sugar prices?
- Ajit Shriram:** No, the sugar prices have been relatively stable at about Rs. 33.50 a kilo, ex-works.
- Achal Lohade:** And that is stable in last 8-10 days you are saying?
- Ajit Shriram:** Yes, there has been no real change.
- Moderator:** Thank you. The next question is from the line of Karthik Sambhandham from Unifi Capital. Please go ahead.
- Karthik S.:** I just have one query on the country liquor potential revenue that could flow in from Q1 you had mentioned in last concall, so could you talk about on that?
- Amit Agarwal:** For FY22, the net revenue should be close to about Rs. 22-23 crore.
- Karthik S.:** And are we in line for finalizing the technology for ECH which is supposed to be in bio-based?
- Ajay Shriram:** For ECH?
- Karthik S.:** Yes.
- Ajay Shriram:** Yes, we are discussing with technology suppliers, there is advanced stages of discussion, so I think it should be done shortly.
- Karthik S.:** And just one last question, there is 120-megawatt coal-based plant that is coming in from Q4 FY22, so just curious, this is a big capacity and how much would exactly be the addition to the cost saving that we are looking at
- Ajay Shriram:** Amit, you have the figure of cost saving because the new plants have a much higher efficiency?
- Amit Agarwal:** Yes sir, the way we look at it is that see this plant where we are investing close to about Rs. 425 odd crore, it should give us return in terms of cost saving close to about 20-25% at EBITDA level.

- Moderator:** Thank you. Next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.
- Resham Jain:** I have one question on sugar. With so much of positives being framed around reducing the overall sugar inventory in the factory and I think the more capacities are coming on the ethanol side, exports are also happening healthily, do you feel that possibly by the next year the closing stock level will come to a very comfortable level of let us say around 7 to 8 million tons and beyond that also next year if more capacity comes in, the sentiment around the inventory levels should be more comfortable and how will the policies be framed because then there will be a different set of questions on the sugar availability itself at some point of time, so just your thoughts around this?
- Ajit Shriram:** You are right, the sugar inventory is very much under control at this point of time and as I mentioned earlier, we do hope that the government allows us to export at least a couple of million tons over and above the 6 million tons quota which has been announced so far. For the years going forward, we are hopeful for proactive policy to allow clean juice in North India to make ethanol and the rough consumption of sugar in India is about 26-27 million tons, our production is 31-32 million tons, so we do need to divert more sucrose into making ethanol going forward on a consistent basis. Actually, the cane crop is extremely profitable for the farmer and if we see where the cane arrears have been even up to Rs. 20,000-25,000 crore, the farmer has not given up on cane and has stuck on cane in spite of high arrear. This is because the profitability he get even after the delayed cane payment is much more than any other crop cycle, wheat, paddy or any other combination.
- Resham Jain:** Do you think that possibly once the overall inventory levels come to a comfortable level and sugar prices also being decontrolled in a way, India may see a higher production of sugar from current levels also?
- Ajit Shriram:** I don't think the sugar prices being de-controlled, as of now for the last 3 or 4 years, there has been a monthly release mechanism by which the sugar prices have come under control, I mean three or four years ago, I think in the month of April or May, 3 years ago, the sugar prices dipped to about Rs. 25 a kilo which was very alarming. So, by bringing the control of monthly releases back, the prices have come back to about Rs. 31, Rs. 32, Rs. 33 which is desirable, in fact this needs to go up more to reduce the cane arrears going forward and there is a group of ministers in the central government who have had deliberations to increase this minimum selling price from the current Rs. 31.
- Resham Jain:** And sir, my second question is around the ethanol storage capacity which has become a big issue somewhere in Jan-Feb, have those issues now resolved and are the OMCs geared on the storage side?
- Ajit Shriram:** As mentioned earlier, the central government has really been very proactive on the ethanol policy. They had preponed the highest blending of 20% ethanol which was due originally in the year 2030 through the year 2025. Consequently, the OMCs are also building up more capacity to store ethanol. Now building up these capacities is not that quick and simple, I think it will take 8, 10, 12, 15 months to happen and as that happens, the offtake will improve in a more cohesive way.
- Resham Jain:** But as of today, are you seeing issues on the storage side?



- Ajit Shriram:** No, what we are doing is we are going to further depots from Uttar Pradesh and before this, see normally wouldn't have gone to, we are going to further depots, so that we were able to clear our stocks on consistent basis.
- Resham Jain:** And that is getting compensated, or you are doing out of your pocket?
- Ajit Shriram:** No, two things over here that the OMCs have revised the transportation rate, I think 6-8 months ago and we are in touch with the OMCs to further revise the transportation rates to what they would have paid to actually transfer a petrol or diesel from X location to Y, so if the transportation rates comes to that parity, then it will be much easier to transport the ethanol to really distant states like North East, Tripura, Assam, etc., etc., without any burden for sugar industry and that will also help in the achievement of 20% blend in the next 3 years.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.
- Saket Kapoor:** Sir, firstly as has been told that there has been a price reduction in the chemical segment, sir, this PVC prices and all were already at the high end, so \$50 correction, has that same transmitted to the caustic soda prices also sir, you were telling that the prices did move up above the \$300 also end of April, so if you could give some more clarity on the price trends?
- Ajay Shriram:** Amit, you have that details?
- Amit Agarwal:** Yes, for chemicals current prices have come down a little bit, from \$300 they have come down to about \$280.
- Saket Kapoor:** End of April, they were above \$300 as you have been told earlier?
- Amit Agarwal:** See, I can't give you specific time, but I think around 25-26 April when I checked they were \$300 and now as I check it is \$280.
- Saket Kapoor:** And sir, how have been the utilization levels for our caustic soda complex currently?
- Amit Agarwal:** It has been good as far as April month was concerned and as we have mentioned in our earlier messaging during the call, that it is the May, where how the demand moves because we are seeing some demand destruction happening. So, it will depend, it is very difficult to say what will happen, but yes, there will be some demand shrinkage that will happen. The quantum of it is yet to be determined.
- Saket Kapoor:** Because since we are only in the first week of May, so if you could just give a guidance, how have the utilization levels flared up post the month of April exit?
- Amit Agarwal:** As I said first, we can't be determinant of what will happen in the quarter or what will happen in the month, so I don't think it is right for me to give you that number at this stage, so few, as I said April went pretty well in terms of capacity utilization.
- Saket Kapoor:** What was the number sir, for April if you could give some idea sir, which trajectory?
- Amit Agarwal:** April would be in the range of around 85%, however, May we will have to see how it pans out.

- Saket Kapoor:** Sir, of late this industrial oxygen, I think so the oxygen part of it also I think some quantity has been diverted, so there has been an incremental demand for caustic soda I think so for the paper industry? Has that also played out in the month of April because of the nonavailability of oxygen by being diverted for medical purposes, has caustic soda and hydrogen peroxide?
- Ajay Shriram:** To my understanding, caustic soda demand by the paper industry or the chemical industry or all these is, I don't think it is linked to the oxygen being taken away, I don't think so, but frankly, I will be honest with you I don't want to give that answer which I think it is a technical issue which our technical people will manage. I can't answer that, but the demand was going up in the month of April as mentioned by Amit just now and now I think in the first week of May, it is not the first week of May which is important, it is corona or COVID-19 which is important and that is what is creating a high degree of uncertainty right now.
- Saket Kapoor:** And sir, on the ethanol part of the story as the earlier speaker did articulate about the further capacities which are going to come up are more will be starch based rather than sugar based, so sir, in our distillery, in the off-season, are we also looking for some retrofications, so that in the off seasons that could be shifted to grain and we can continue with the ethanol production even during the lean periods, have we given a thought to it, sir?
- Ajit Shriram:** As I mentioned earlier, we are utilizing our distilleries to the fullest in terms of 330 or 335 days a year and are balanced with our current crushing capacity. We are exploring the option of further expansion and debottlenecking and we are exploring the option of looking at the procurement of grains or broken rice, etc., as alternate feedstock and if we are able to do that then we will have to do a partial expansion.
- Saket Kapoor:** Sir, two more short questions, firstly on the finance cost part sir, last two quarters, there has been substantial reduction. For the next year, what should we consider as absolute amount for the finance cost since the drawn limit also is down and I think so, CAPEX will happen from I think this quarter onwards, so what should be the finance cost for this year?
- Amit Agarwal:** Saket, it is difficult to give you the exact number, but given that when we started FY21, we started with a net debt of Rs. 1,623 crore, and we ended with Rs. 180 crore net debt. This year, since we are starting on a low base and we are expecting our cash flows to be good, so we have not factored in so much of corona right now, so obviously the cost should be lower than what we saw in the last year, but exact amount is very difficult to say.
- Saket Kapoor:** Sir, out of this Rs. 1500 crore under implementation, how are these going to plan, how much will happen in the first quarter, second, third and fourth in that phase manner?
- Amit Agarwal:** I don't have that quarterly number right away as far as plans we have but ballpark this 1500 crore will get incurred more or less equally between these 2 years, may be 60/40 or 40/60 that kind of number, but more or less that kind of distribution between the 2 years.
- Saket Kapoor:** 60% for this financial year?
- Amit Agarwal:** As I said, it can be 60, it can be 50, ballpark number is that.



- Saket Kapoor:** Sir, Lastly on the fertilizers. What is the strategy going forward. This being a controlled sector how is the company shaping up. We are going to continue in the same pattern. What is the foresight for us two years down the line?
- K. K. Kaul:** As of now, we don't have any plans to expand. We would be optimizing our efficiencies, reducing our cost and maximizing the production that we can get from this within the given asset, so as of now there is no plan to expand capacity.
- Moderator:** Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.
- Siddharth Mohta:** Sir, my question is, within the sugar segment, if there is any scope to increase sugar crushing capacity?
- Ajit Shriram:** We are constantly working with the farmers to increase yield, increase the cane area and then subsequently, we will increase the sugarcane capacity. There is scope for sure and this is very live on our agenda and we do hope in the next couple of years, we are able to increase our cane area to such an extent we were able to increase our cane crushing capacity.
- Siddharth Mohta:** Sir, any figure that you would like to quote because said that you have been looking?
- Ajit Shriram:** No, I can't put up it.
- Siddharth Mohta:** But no CAPEX capacity that is going to happen, it is more of an organic thing that you are doing?
- Ajit Shriram:** Yes, organic, correct.
- Siddharth Mohta:** Sir, regarding the Shriram Farm Solutions, you have taken lot of strategic decision which has led to an increase of value addition product, decrease in the bulk and this has reflected in our strong performance at the operating profit. Sir, do you think that the momentum that was seen in the last 2 years that will continue further in coming 2 years?
- Ajay Shriram:** Our focus in the Shriram Farm Solutions run as another vertical of seeds and the crop care chemicals and value-added fertilizer segment, and the business is looking at expanding under each of these three going forward. When you see just the bottomline per se in any agriculture product, it has an impact because of the market, because of the monsoon, because of government policy at particular period of time and there is research involved in developing some of these products, so you know we have a good product, it moves well, but the objective of the business is to continuously keep expanding, keep growing, add value added products, have a better connect with farmers, how to provide better technology to farmers, input and advice to the farmers, so that farmers can increase their yield and their profitability, so our objective is to help the farmer and consequently we become a product and technology supplier to the farmer, so this is I think which we do expect it to keep growing.
- Siddharth Mohta:** Sir, just one clarification, Amit sir said regarding the new upcoming power of 120 megawatt at Bharuch, our CAPEX is around Rs. 450 crore, and the cost saving sir has mentioned 20-25%, so the simple transportation it shows Rs. 80 to 100 crore would be our sharing?

- Amit Agarwal:** Yes, at least Rs. 100 crore, yes.
- Moderator:** Thank you. The next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.
- Sreemant Dudhoria:** I had couple of questions, one on the fertilizer segment to the statement that is mentioned in the presentation that the energy saving rate was lower due to lower gas prices impacting the earnings, just wanted to understand this better, does that mean that the sales happened X of the subsidy that the government gives in the urea, is that understanding right or there is more to that? Please help me understand this?
- K.K. Kaul:** See, the saving in energy is in the energy terms, it is in million K calories that you will say the certain amount of energy and since the energy largely comes from the gas, if your gas prices are higher or lower and you multiply this energy saving by the gas price, it changes with the gas price, so if the gas price is lower, the value for that same energy that you saved at lower price is lower in terms of value in terms of rupee, so that is why this year the gas prices that we have at lower in that period, so the same energy consumption saving in million K calories or the value terms and multiplied by the price becomes lower and if the gas prices are high, it would be higher for the same energy.
- Sreemant Dudhoria:** And secondly on the Bioseed, multiple participants have asked question on this segment, but just trying to understand a bit detail on Bioseed, if I look at the last 5 year's performance in the Bioseed segment, on the topline it has been like sub 500 crore and we have been taking multiple provisions write downs in this segment, so one area you mentioned was we are coming up with a better variety of cotton seed that the competition, but in terms of building the capability in this segment, what steps have been taken and in the medium term, could this segment have a meaningful contribution to our profitability, wanted to understand a bit more on this?
- K. K. Kaul:** Yes, you are absolutely right, but as I said that we have now some very promising hybrids which initial one or two years by the lower scale have shown very good results and we hope that we can scale them up, but to scale that up also you need to build certain capabilities and we are working on that. We have done an in-depth study where all do we need to build up those capabilities, so we are able to do that kind of scaling up and as we said that we are in the process of taking fertilizers which will help us to scale them up and build those capabilities both in terms of distribution, in terms of our sales and marketing and in terms of the people also.
- Sreemant Dudhoria:** What milestones are we targeting sir in this segment? How should we plan the performance of this segment?
- K. K. Kaul:** Still, it is very difficult to say, but in the next 3 years, we expect a very significant improvement.
- Sreemant Dudhoria:** Other than that, what crops are we targeting?
- K. K. Kaul:** We have paddy, hybrid paddy and we are in corn, we have mustard, we have bajra, we have vegetable, and we also have wheat.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.



Ajay Shriram:

Thank you. Ladies and gentlemen, we thank you for your participation in our Q4 and FY'21 Earnings Conference Call.

We have gained from our strategic steps taken over the last few years. Through our future growth initiatives, efforts will be on further strengthening efficiencies, augmenting capacities and developing a stronger value added profile across our businesses. Our strong balance sheet allows us to keep investing in growth even during these tough times. We are confident of a sustained growth over the medium term.

During the Covid-19 pandemic last year we took proactive efforts to help our people, community and the governments including local authorities. This year the impact is far more devastating and we have accelerated our efforts in this direction.

Once again, I would like to thank you for taking time out and joining us today. And we wish you all good health and safety to you and your families during the difficult COVID times. Thank you very much.

Moderator:

Thank you. On behalf of DCM Shriram Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.