



DCM Shriram Consolidated Limited
Q4 FY08 and FY08 Results Conference Call
May 15, 2008, 4.00 p.m. IST

Moderator: Good evening ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome to the DCM Shriram Consolidated Limited conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to handover to Ms. Sherna from Citigate. Thank you and over to you ma'am.

Citigate: Thank you and welcome to DSCL's Q4 and FY08 conference call. Thank you for joining us on this conference call today. Today, we have with us Mr. Ajay Shriram, Chairman and Senior Managing Director; Mr. Vikram Shriram, Vice Chairman and Managing Director; Mr. Rajiv Sinha, Deputy Managing Director and Mr. J. K. Jain, Chief Financial Officer of the Company. We will begin this conference call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram, after which we will have a question and answer session. I would now like to invite Mr. Ajay Shriram to give us a brief overview on the operations of the Company. Thank you and over to you sir.

Mr. Ajay Shriram: Thank you and a warm welcome to all of you to DSCL's Q4 and FY2008 conference call.

Let me begin by stating that we have been able to register a sharp improvement in performance in Q4'FY08. Your company recorded an operating profit of Rs.75.6 Crs, an increase of over 100% over the comparable quarter, led by significant improvement in operating environment in sugar business, turnaround in Agri Inputs (Trading) and lower interest expense.

I am happy to report that this year we continued to make good operational progress across all our businesses. Let me first begin with Hariyali Kisaan Bazaar – our unique rural retailing format where we gained further momentum. The total number of outlets of Hariyali increased to 160 as on March 31, 2008 with 90 outlets added during the year. Hariyali is now present across seven states with a distribution centre (DC) in each of these states. During the year we entered Southern India with the launch of our first

Hariyali outlet in Andhra Pradesh and since then have added 10 outlets in the state. The 'Hariyali' brand today symbolizes trust, confidence, reliability and respect amongst the rural community. We have enhanced the products and services being offered from these outlets to cover all family goods, construction materials, money transfer services (in association with western union), and credit services, in tie up with HDFC Bank. Going forward, we plan to scale up our outlets pan India to around 300 by FY09. We expect that its continued growth momentum will result in it being a key value driver for DSCL.

We took another significant step in strengthening our presence in agri-inputs sector by completing the purchase of entire stake of our JV partner in Hybrid Seed Business. This business which has operations in India, Vietnam, Philippines, Thailand and Indonesia is set for faster growth in coming years.

Our Fenesta business had an order book of 221,531 windows on March 31, 2008 which includes 147,719 windows added during the year. As we had mentioned earlier, we have added our focus on the latent opportunity in the retail segment. Towards this end, we have set up a network of 30 dealers pan India and are also looking at opening dedicated Fenesta Building System showrooms across the country through franchisee model. The product has shown encouraging levels of acceptance and once it reaches the critical operating size we expect it to generate healthy returns in the future.

Our expansion programme at Bharuch for capacity enhancement of Chlor-Alkali to 360 TPD from 200 TPD and setting up of a 48 MW thermal power plant are progressing on schedule and are expected to be commissioned in July 2008, which should significantly add to our profitability in FY 2009. In addition, the Board has also accorded approval for further expansion of capacity at Bharuch to 440 TPD to be completed by Q4 FY09 at a cost of Rs. 25 Crore.

The expansion in sugar co-generation capacity from 70.5 MW to 94.5 MW, which will result in an exportable capacity of 51.5 MW, is also progressing as per plan.

All our businesses have continued to record good demand growth. The operating environment for sugar business has seen improvements in last two quarter though uncertainty continues on some key issues i.e. cane price and investment incentives.

The Chemicals, Plastics and Cement businesses of the company are going through margin pressures due to cost push. However, realisation strong demand growth is expected to keep realizations healthy which should enable to sustain operating margins.

In fertiliser business, subsidy payments in continue to be on area of concern with Govt. issuing fertilizer bonds – at sub-market coupons leading to substantial loss for the already stretched industry.

The sale of SBM Land Redevelopment Project during the year enabled us strengthen our balance sheet and finance the growth initiatives the company has been implementing.

On an overall basis we are happy with our operating results, while our financial performance did get affected due to specific business conditions. However, we are seeing greater signs of stability across all our businesses, which should help us post better results in FY09.

With that, I would now like to invite Vikram to take you through the financial numbers of the Company for Q4 FY2008 and FY2008.

Mr. Vikram Shriram: Thank you and good evening ladies and gentlemen. I would once again like to thank all of you for joining us today on this conference call.

Starting with the quarterly performance,

The Net Sales for the quarter stood at Rs. 612.7 Crs. Compared to Rs. 554.3 Crs. for last year, an increase of ~11% driven primarily by higher volumes in sugar, significant topline growth in newer businesses of Hariyali Kisaan Bazaar (~142%) and Fenesta (~51%), and better realizations in Chlor-alkali, Plastics and Cement businesses.

The PBDIT from operations registered an increase of over 100% in the quarter from Rs. 37.6 Crs. to Rs. 75.6 Crs., led by positive changes in sugar operating environment, higher profit from Power Co-gen and substantial improvement in profitability of Agri-Inputs (Trading), consequent to discontinuation of trading in imported DAP/MOP.

Chemicals and Plastics saw operating margin pressures due to cost push primarily in energy and carbon costs. Selling price increases could mitigate part of the cost increases.

The fertilizer business saw a dip in profitability due to lower production volume in Q4FY08.

Newer businesses of Hariyali and Fenesta continued to be in the investment phase which had a planned negative impact on the overall profitability of the company.

The interest expense for the quarter was lower by ~22%, consequent to induction of funds from the sale of SBM Land re-development project in Q2 FY08. However, subsidy outstanding in urea business and higher sugar inventory resulted in higher working capital requirements for the company.

Profit after tax for Q4 FY08 was at Rs 17 Crore (before exceptional items) and Rs.11.25 Crore (after exceptional item), mainly due to mark-to-market of fertilizer bonds. This translates into an EPS of Rs.1.02 before exceptional items and Rs.0.68 after the exceptional items.

PAT for the quarter was adversely affected by a provision of Rs.9.5 Crs for diminution in the value of fertilizer bonds, and mark-to-market of all derivative transactions amounting to Rs.2.4 Crs.

During the year the company sold the SBM Land Redevelopment Project which resulted in an after tax profit of Rs. 674 Crs.

Our net profit for the year, therefore, was at Rs. 671 Crs. vis-à-vis Rs.45.8 Crs. last year. Our results reflect the benefits of multiple revenue stream and integrated operations which enabled us to meet challenging market developments. Further, our Hariyali Kisaan Bazaar and Fenesta businesses continue to be in an investment and ramp-up mode. While these businesses are moderating our overall profitability in the short-term, we expect that they will add considerable value in the medium to long term.

We are confident of recording a much improved performance in the coming year with better operating environment in sugar and completion of projects in hand.

With that I end by remarks. Thank you for joining us on this conference call. We will now be glad to take any questions that you may have.

Ajay Shriram: I just wanted to add one more activity which has happened in the last 10 days. You may have read about it in the newspapers. Our Company has taken over 81% shareholding in an SSP plant in Rajasthan. It is in Chittorgarh, near Udaipur. This will further strengthen our Agri-input portfolio. Now, we would take questions please.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Mr. Jinesh Gandhi from Motilal Oswal Securities. Over to you sir.

Jinesh Gandhi: My question is on your hybrid seed joint venture you mentioned, you acquired 51% stake, can you throw more light upon that business, how big is that, and what consideration you paid for this stake acquisition?

Vikram Shriram: Actually, this was a hybrid JV where we had 51% stake already, and our JV partner had 49% stake.

Jinesh Gandhi: Okay.

Vikram Shriram: In March this year, we were able to negotiate and take over his 49% stake of all operations and research areas of the company, including in India, Philippines, Vietnam, Thailand, and Indonesia.

Jinesh Gandhi: Okay.

Vikram Shriram: As far as the operating levels are concerned, it has approximately Rs. 100 crore plus turnover in all the companies put together.

Jinesh Gandhi: Right.

Vikram Shriram: And approximately Rs. 5 crore PAT.

Jinesh Gandhi: Okay, and in terms of crops, which crops does it cater to?

Vikram Shriram: We have a wide variety of crops we cater to, corn, BT cotton. BT cotton has been launched this year for the first time. Bajra, sorghum, sunflower, paddy, vegetable seeds, I think these are the main ones.

Jinesh Gandhi: Okay, it is primarily into hybrid seeds.

Vikram Shriram: It is only in hybrid seeds.

Jinesh Gandhi: Okay and we conduct research on these crops.

Vikram Shriram: Yes, we have an extensive research facility in Hyderabad, Bangalore, parts of North India, Vietnam, and Philippines.

Jinesh Gandhi: Okay and in terms of operational diversification, it is across these 4 countries, which you mentioned, India, Vietnam, Philippines, and Thailand.

Vikram Shriram: And Indonesia.

Jinesh Gandhi: Indonesia, okay, and in terms of the scale up, what kind of scale up are we anticipating and the timeframe if any that you can clarify upon?

Vikram Shriram: I can't give specific numbers, but we have very aggressive growth plans. This year is the first year where we got the government approval to launch BT cotton and we are expecting substantial improvement in turnover and bottom-line this year from that activity. This will enable sharp increase over the next 2 to 3 years.

Moderator: Thank you very much sir. Next in line, we have Mr. H. R. Gala from Quest Investment Advisory. Over to you sir.

H. R. Gala: Congratulations for a good set of numbers in the fourth quarter.

Ajay Shriram: Thank you.

H. R. Gala: It is said you know that sun god drives chariot of 7 horses. You have got 11 businesses to run. We were just reviewing your excellent press release which you have, just a few questions sir. For the Fenesta business what has been the turnover last year?

Ajay Shriram: It has not really come to that level where we can report it as a separate segment, you know, it is within 10% of our Company turnover, but it is growing well. I think what is important really is looking at the number of windows on order and the second point which is making us more bullish on this business, is where we are, until about a year back our focus was really on the institution segment, which is a mass market, large numbers and the prices are, you can imagine, beaten down by the large buyers, whereas now we have got in the retail segment. The retail segment is much more specialized. It is like a niche market, where besides providing the plain white windows, we provide colored windows, we provide wood foiled windows that look like wood, you can't really make out it is not wood, and that market is growing rapidly. That is giving us a lot of confidence in the business model. Going through a transformation from just an institutional model, coming into covering the entire chain of potential customers, where our margins are much better than what they were in the institutional market.

H. R. Gala: Okay, when do you think this business can break-even once the investment phase is over?

Ajay Shriram: We feel that maybe in the next 12 to 18 months, we should be in a position to break-even on this business.

H. R. Gala: That will be total break-even or at the cash level?

Ajay Shriram: Total break-even.

H. R. Gala: At total level.

Ajay Shriram: Yes.

H. R. Gala: PBT level?

Ajay Shriram: That is right.

H. R. Gala: Okay, and what kind of investment are we making in Fenesta?

Ajay Shriram: Till date, we have made about Rs. 80 Crore to Rs. 90 Crore investments in the business. In the next one year, the only small investment we are considering at the moment may be is Rs. 5 Crore to Rs. 6 crore, for putting up a couple of extruders for expanding and increasing the capacity of our extrusion plant at Kota, so that is something being considered. Our people are really trying to get a little match on when is the right time to sort of raise the order and get the machinery, but I think it will be around Rs. 5

Crete to Rs. 7 crore. You know, Fenesta is not a very heavy capital intensive business. This is a good part of it.

H. R. Gala: That is right, and I think at the retail centers you are going to have through franchisee model?

Ajay Shriram: We are looking at dealers also.

H. R. Gala: Dealers also.

Ajay Shriram: Basically, who will really move for getting the orders for the business, but the important part of the business is the installation side, which is the actual inter phase with the customer and delivering the product. So on how to get that achieved, the Company is going to do it ourselves, so that is where we feel our control on quality, our control on delivery, our control on really satisfying the customer will be there. So, the dealer will help us in getting orders, while actual delivery and installation, is something which we plan to keep within our own control.

H. R. Gala: Okay, this Rs. 80 Crore to Rs. 90 Crore capex that you mentioned is for the Company as a whole?

Ajay Shriram: For the total Fenesta business till date.

H. R. Gala: The amount invested till date.

Ajay Shriram: That is right.

H. R. Gala: Okay, sir, can you tell us about your capex in FY08 for the Company as a whole, and you know next 1 or 2 years, what kind of resources will we be using?

Ajay Shriram: I will ask Mr. J. K. Jain, our CFO to answer that.

H. R. Gala: Sure.

J. K. Jain: Right now, we are implementing two major projects; one is the Chlor-alkali capacity expansion at Bharuch, and putting up a power plant there, and our Sugar co-gen capacity expansion of 24 MW.

H. R. Gala: Correct.

J. K. Jain: The total expenditure on these put together is about Rs. 400 Crore, which is being implemented in the next 2 years, part got spent last year, and part will be spent in the current year, plus we have ongoing capex plans on Hariyali and a small amount on Fenesta.

H. R. Gala: In Hariyali, when we are expanding to say 300 outlets by end of next year, what kind of investment we will be making?

J. K. Jain: We are making investment of Rs. 70 to Rs. 100 crore depending upon the land prices each year in Hariyali. It is expected that, that will continue for a couple of years.

H. R. Gala: Okay, and in terms of our space, these 300 outlets will represent how many square meters or square feet.

Vikram Shriram: About 3.5 million, over 3 million square feet

Vikram Shriram: Today, we have over 1.5 million in 160 outlets.

H. R. Gala: Okay, right now 1.5 million and we are taking all the places on ownership basis or we take the place on lease.

Vikram Shriram: We have two models, where we have what we call Centers which are larger outlets, there we have an ownership model of a 3 acre or 4 acre plot of land campus, on which we have our store, petrol pump, and many other agri-related activities. Other than that, we have built to suit size, which are our stores, which are 6,000 to 8,000 square feet. These are on long lease for 15 years.

H. R. Gala: Okay. Sir, we read in newspaper somewhere that we are planning to hive-off this Hariyali business once it reaches a significant turnover. Has it been reported correctly by the press?

Ajay Shriram: That is right. We in fact had mentioned this earlier also, that we are looking and we have not yet worked out the appropriate time to do that, but it is within our gamut of study of hiving off Hariyali Kisaan Bazaar into a separate company, a 100% subsidiary of DSCL, and then we can optimize that in terms of funding, in terms of ESOPs, in terms of management focus.

H. R. Gala: Okay. Sir, this new acquisition which you talked about Shri Ganapati Fertilizer, what is the current turnover sir?

Ajay Shriram: Well, I think, what happened is because of the SSP policy of the government not being very good for the last few years, SSP industry has been languishing. I think their production was also having a bit of a problem. We had a contract with this Company for the last few years to do contract manufacturing for us. That is how we had the relationship with this company, and that did not materialize. They were not able to produce the product. So, as part of the situation of really getting our money back, we actually have now taken over management control of that company. So, we are putting our own team in place. As you may be aware, the government in the last one month has now come out with a new single super phosphate policy. So, it will be much better than what it was in the past. Government realizes that this is a good

substitute and a good fertilizer for the farmer, so this has come out now, so we expect this to be a satisfactory business, and it will take 4 or 5 months to come under control with more technical people and buying raw materials, and getting the production in order, but for us with the agri focus which our group has, we felt this is a very good addition to our agri portfolio.

H. R. Gala: Okay, so how much money did we pay to acquire this 81% odd percentage equity?

Ajay Shriram: A little under Rs. 8 crore to get this.

H. R. Gala: Okay, and once our team is there in place and all that, what kind of incremental revenue and profit do we expect?

Ajay Shriram: It is a little early to comment, the capacity of the plant is 1, 98,000 tonnes a year or 2 lakh tonnes a year. Selling price of SSP is about Rs. 3,400 per tonne, so that can give you an idea, around Rs. 70 to Rs. 75 crore, in that range.

H. R. Gala: It is 1, 98,000 powder plus 60,000 granules.

Ajay Shriram: No, no. That 60,000 granules is part of the 1, 98,000.

H. R. Gala: Okay, so Rs. 3,400 per tonne is for the powder.

Ajay Shriram: Yes and our plan is really to keep growing this operation once we are in it. We will look at growth of this business.

H. R. Gala: Okay, sir you said that some policy has been announced, but I think the pronouncement was to come for DAP and all that, that has come about or not?

Ajay Shriram: No, DAP and urea there has been nothing new. On DAP, there is no policy. This came on SSP.

H. R. Gala: Only on SSP.

Ajay Shriram: Yes, on 30th April actually.

H. R. Gala: Okay, thank you very much and wish you all the best sir.

Moderator: Thank you very much sir. Next in line, we have Ms. Falguni Thacker of Jet Age Securities. Over to you ma'am.

Falguni Thacker: Sir, my question is on this discontinuation of import and trade of bulk fertilizers of DAP and MOP.

Ajay Shriram: Yes.

Falguni Thacker: Could you just tell me whether is it because of the delay in getting subsidies or because of receipt of lesser subsidies which are not covering the cost?

Ajay Shriram: Well, actually speaking you know, we were actually importing between 3 to 4 lakh tonnes a year of DAP/MOP until 2 years ago. There were 3 to 4 parameters or 3 to 4 factors which made us discontinue the imports, though we were keen to do so. One is that the policy of how calculation of the imported price would happen is something which was not clear enough not conducive to imports, so because of that we did not import last year. The second is that there is a tremendous delay in payment from the government of subsidy, and then that holds up our cash flows, so that makes a difference.

Falguni Thacker: So, do you mean to say that we were incurring losses by importing subsidies that.....

Ajay Shriram: Yes, I'll put it this way that two years ago, when we did import about 3-1/2 to 4 lakh tonnes, we lost over Rs. 30 crore.

Falguni Thacker: So, that could be attributed to under payment of subsidies, right?

Ajay Shriram: That is right.

Falguni Thacker: Okay and the other thing I wanted to ask is what is the rate at which you all are selling the co-gen power from sugar integration?

Ajay Shriram: From sugar, it is about Rs. 3.

Falguni Thacker: And is it on power purchase agreement?

Ajay Shriram: We have a power purchase agreement with U.P. State Electricity Board. And as of now because of the configuration of our boilers and our turbines, we are supplying in the season and in the off season.

Falguni Thacker: Okay, and last question sir, what has led to such a significant rise in PBIT in your urea segment?

J. K. Jain: Urea segment?

Falguni Thacker: Yes.

J. K. Jain: Compared to last year?

Falguni Thacker: Yes.

J. K. Jain: Last year was partly a shutdown year. We have a shutdown every two years, so last year happened to be that shutdown year, when the production was also a little

lower. We did not produce full capacity and there was higher maintenance expenditure. The other advantage which we had this year was that we used part LNG as feedstock. We have LNG and naphtha we can use both these as feedstocks. We used part LNG this year, which resulted in benefits vis-à-vis naphtha.

Falguni Thacker: Okay sir, thank you.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Anindya Banerjee of IL&FS Investsmart. Over to you sir.

Anindya Banerjee: Thank you. Good evening sir. This is Anindya Banerjee from IL&FS, and congratulations for an excellent set of numbers. Sir, my first question is related to your urea plant, where you said that, after the implementation of the NPS-III, by 2010, all the urea manufacturers have to shift to gas-based production.

Ajay Shriram: Yes.

Anindya Banerjee: Now, in your Kota plant, you have ratio of 28:72 of LNG and naphtha.

Ajay Shriram: Right.

Anindya Banerjee: So, my first question is, how would you tackle the risk of supply because there is no pipeline which would take the gas to that place and secondly how you are looking to manage the price risk of natural gas?

Ajay Shriram: Well, you know, in our position, when we made an investment of little under Rs. 40 crore to convert the capability of our fertilizer plant and make it dual feed, that means naphtha and LNG, we actually did this after we got a confirmation that the GAIL and Petronas who were involved, will put up a direct pipeline to our factory, so we have a full pipeline coming to our plant now, and our supply of gas is coming through that. If you take the last year, we commissioned this plant in September 2007 and in the last 4 to 5 months of the last financial year, we were getting about between 20 to 30% gas. In the last 10 days, we are getting 100% gas.

Anindya Banerjee: Okay.

Ajay Shriram: So, we stopped using naphtha, we are using 100% gas. In terms of the pricing of the gas, frankly we are buying at spot today, but that is still much cheaper than if we were to use naphtha. Naphtha today is priced about \$ 23 to \$ 24 per million Btu whereas we are buying this today at \$ 16 to \$ 17 dollars on a spot basis.

Anindya Banerjee: Right sir.

Ajay Shriram: The fertilizer ministry, the finance ministry, the petroleum ministry, they are all involved in evolving a policy at which price gas should be supplied to the fertilizer

plant. So, whenever, that policy initiative is accomplished, we will also be a part of that, and we do expect that being on LNG will help us in terms of being a much lower cost feed stock compared to naphtha, so it will help us in the long term.

Anindya Banerjee: Thank you sir.

Ajay Shriram: You also mentioned about price risk.

Anindya Banerjee: Yes sir.

Ajay Shriram: Actually, there is no price risk because government policy is such where today they give subsidy to the farmer and that is routed through the industry, so in this situation whatever is the actual feed stock price of manufacturing one tonne of urea, this is reimbursed by the government to the industry, so we have no price risk at all.

Anindya Banerjee: Okay sir and sir, one more thing because you are expanding your Chlor-alkali capacity, just wanted to have your outlook on that industry, because over there the biggest volatile factor is the price of chlorine and also the offloading factor over the disposal of the chlorine. Just wanted to know your outlook going forward on the chlor-alkali industry.

Ajay Shriram: Well, you know, we have seen in the last year or two that if the economy is growing at 8% to 9% and world's economy also is growing well, the growth of the chlor-alkali industry is almost in the range of about 7%.

Anindya Banerjee: Yes sir.

Ajay Shriram: We have seen for the last 10 to 12 years, if one looks at the history this is a sort of industry where if there is a spurt in installed capacity and production, there is a bit of a pressure for a year or two.

Anindya Banerjee: Yes sir.

Ajay Shriram: Thereafter, it sort of balances out and chlorine is also a very important raw material for companies. For instance, 60% of the chlorine goes into PVC. So, that itself has its own market, so you know, PVC is one product, caustic soda is the second product. So, in both these, we are finding that it is fairly consistent, little ups and downs, but that is there in any commodity business, but our view is that the approach has to be how to be the lowest cost producer and be competitive compared to others, and that is one reason why we are expanding capacity as well as changing over to thermal power plant. That will help us in reducing our costs, making us more competitive.

Anindya Banerjee: Thank you sir, that is all.

Ajay Shriram: Thank you.

Moderator: Thank you very much sir. Next in line, we have Ms. Ashwini Agarwalla of PINC Research. Over to you ma'am.

Ashwini Agarwalla: Sir, currently, you said that you are buying spot gas at the rate of \$ 16 to \$ 17 per Btu.

Ajay Shriram: Yes.

Ashwini Agarwalla: Sir, can you tell me what is the long term rate existing in the market?

Ajay Shriram: Well, let me put it this way, you know, there are some fertilizer plants who are working under the APM formula, which was formulated about 5 to 6 years back.

Ashwini Agarwalla: Sir, so would you be getting gas under the APM formula?

Ajay Shriram: No. We will not be getting under that formula.

Ashwini Agarwalla: Okay.

Ajay Shriram: Of course, people are getting at two dollars fifty and three dollars.

Ashwini Agarwalla: Okay.

Ajay Shriram: The government is now working with the petroleum ministry to work out what should be the price of gas sold to fertilizer companies because there are many companies now who are in the similar state of not having a tie-up price agreed supply system for gas, so the fertilizer ministry is also working on this, and whatever price the fertilizer ministry agrees to is okay by us.

Ashwini Agarwalla: Okay sir. Sir, do you expect it to be lesser than \$ 6 at any time because what we have heard is that the prices of APM gas are also slated to rise in the next few months.

Rajiv Sinha: I think there are two issues. What we are buying at today is on a spot basis.

Ashwini Agarwalla: Exactly.

Rajiv Sinha: Price is varying from shipment to shipment. The one major factor would be when Reliance gas is available in the system, and you know, there are some court cases, etc., going on, so that price issue is somewhat uncertain. When Reliance did a discovery exercise about 6 months back, the price was coming to less than \$ 5, so this is right now a very moot question. Of course, at that time, the oil prices were also much lower, so it is a very moot question the long term pricing of gas where it would fall. You were right, the APM prices are now due for revision in any case, they are unnaturally low prices at this point of time. So, I think, another 6 months, by September or so, we expect

position on pricing to be clearer, and that is about the time that long term contracts may be possible. A number of fertilizer companies are working towards that.

Ashwini Agarwalla: Okay sir and you will be getting the entire volume of gas required for running the plant by then?

Rajiv Sinha: See, once it is a long-term contract, we will start getting full quantity. Till then, we have to operate depending on what we get, some times we are getting 100%, some times we are getting 20%. So, because as Mr. Shriram said we have capacity for swinging from 0 to 100% of gas, and 0 to 100% of naphtha, so we will continue to operate in this fashion till long-term agreements are in place. Right now, no long-term agreements are being entered into by any of the gas suppliers.

Ashwini Agarwalla: Okay sir. Sir, with the current scarcity of urea, do you have any expansion plans?

Ajay Shriram:No. We are at the moment not looking at any expansion of urea capacity. You know, I think if you look at it, over the last 15 years, there has really been no expansion in the urea capacity in the country. I think there are a lot of policy related issues also in that. There is no clear-cut policy, but as of now, we are not looking at anything.

Ashwini Agarwalla: Okay sir, thanks a lot.

Ajay Shriram: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Ravichandran of Unified Wealth Management Limited. Over to you sir.

Ravvichandran: Good evening sir. Congrats on a good set of numbers. I have some basic questions, whether your sugar plant was at fully capacity of 33,000 TCD last year?

Ajay Shriram:On days we did reach the full capacity, but the total cane availability was not adequate. We could have crushed more. Our total crush last year was lower than what we had anticipated. Good thing is that by having 33,000 tonnes a day, during the peak season, where the maximum sugarcane is available, we could crush to that level, so that could get us a little higher crush for the total season, but you know, if we had run 180 or 170 days at full capacity, we could have crushed more.

Ravvichandran: Can I have the specific figure of tonnes crushed last year?

J. K. Jain: Yes. For the season, we had a total crush of about 300 lakh quintals.

Ravvichandran: Fine, thank you, and as far as the fertilizer bonds are concerned, these bonds are easily tradable?

Ajay Shriram: You know, what happened is that the first tranche of bonds we got was about 8.3% interest. The second tranche we got was 7.95% interest. Now, we are finding in the market today, if we were to sell the bonds, we will have to sell it at a discount of almost 9% to 10%, so we have taken a view right now that we are not selling it, but in due course of time, it will be a judgmental decision that we will have to make.

J. K. Jain: But they are tradable and saleable easily as and when we want.

Ravvichandran: Has the first tranche of the bond come up for redemption?

Ajay Shriram: The redemptions are, 15 year bonds, I mean, for the 8.3% it is 2023, and the latest one we got is 2026 or 2027. So, we have to wait for a long time if we want to redeem that.

Ravvichandran: Okay fine, and as far as naphtha goes, whether you buy gas at spot or through long-term agreements, whatever benefit you get out of that gets adjusted against the subsidy, right?

Ajay Shriram: Absolutely, it is the rate, at whatever price we pay for the feed stock. Whatever price we pay for the feed stock that is something which is a pass-through cost, which the government reimburses to us, because as you know it is subsidy to the farmer.

Ravvichandran: So, whether it is \$ 6 dollars or \$ 16, it really does not matter.

Ajay Shriram: The only way it matters is when there is a delay from the government in reimbursing us. If you buy at \$ 16, then the amount of money outstanding goes up. If you were to buy at \$ 6, the amount of money outstanding would come down, but we look at it in this way, that we hope by September or October there will be some finalization in terms of a longer term policy, and we will not have to buy on a spot basis, and then the price should be more reasonable.

Ravvichandran: All the 20 or 21 million tonnes of urea capacity in the country will be using gas by 2010, what is the scenario now?

Ajay Shriram: Well, we are not too sure on that because there are a couple of plants, naphtha based plants which are on the coast where there is no gas pipeline, so like Zuari is there or Mangalore Chemicals is there, etc., one does not know what is going to be there in view of how they will get the gas. Secondly there are all these National Fertilizer Limited, NFL plants, which are very large capacity, which are all on furnace oil, and government has not yet come out with a policy because the capital investment they will have to make to convert to gas is going to be fairly substantial, I believe it runs into maybe Rs. 700 unto Rs. 800 Crore, in that range. So, government has to make a policy on that.

Ravvichandran: Okay, now currently the subsidy bill on import of urea appears to be higher than the subsidy bill on domestic urea.

Ajay Shriram: Well, the price of urea is almost \$ 700, so that is almost Rs. 30,000 a tonne, and the Rs. 30,000 a tonne does not include the bagging cost and the internal freight cost. We sell it to the farmer at under Rs. 5,000 a tonne, so the differential, we expect to import between 5 to 6 million tonnes this year, so it is a major cost to the country.

Ravvichandran: Okay, so there is some news in the papers that the government is going to allow debottlenecking in the industry and you know give an import parity pricing, do you see that happening in the near future?

Ajay Shriram: You know from what we have read and what we have understood from the ministry and talking to people is that there is a debate on this going on between the fertilizer ministry, finance ministry, and planning commission, and they have not yet formulated and identified or agreed on what should be the policy for debottlenecking as well as for the new plants, so unless and until the policy comes out it is difficult to say what one needs to do, but once the policy comes, then we will also look at that seriously.

Ravvichandran: Prima facie, it seems sensible, but you know, it is really puzzling what the government is debating now, the various departments, etc.

Ajay Shriram: They are saying that we will give import price parity, someone is saying we will give 90% of import price parity, someone is saying 80%, someone is saying 85%, so we don't know where it stands actually.

Ravvichandran: Okay, thanks a lot, all the best.

Ajay Shriram: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, may kindly press *1 on the telephone keypad. Next in line, we have Mr. Avinash Agarwal of Sundaram BNP Paribas. Over to you sir.

Avinash Agarwal: Sir, could you just give us some flavor in terms of how the caustic - chlor outlook is, I think in the fourth quarter, there was some pressure, how do you see it in the current year in terms of price outlook.

Ajay Shriram: I think fourth quarter was a bit under pressure, prices were a little lower, but in the first quarter of this financial year, the prices have again gone up. It has moved up quite a bit. In the year 2008-2009, so far the capacity utilization is running at about 78% of the industry, and I think the growth last year was almost 7% for the industry. So, the commodities move a little up and down, but good thing in this year, in April as well as in May is that the realizations are better than what they were in the first few months of this current calendar year.

Avinash Agarwal: Could you give us some sense on prevailing realizations?

Ajay Shriram: Realizations as of now, let me tell you, the average is Rs. 21,000 to Rs. 22,000 ECU for chlor-alkali, for the caustic soda chlorine. It is ranging between 21 to 22, depending on the location. In West, it is a little higher. In North, it is a little lower, so that is the price.

Avinash Agarwal: Do you see a firmer trend going forward, I think the power cost for various players globally is also going up, do you see a firmer trend in caustic chlor prices?

Ajay Shriram: I think, you know, as I said, there is growth of 6 to 7% happening in the industry, and we feel that it should be fairly stable. You know, there will be ups and downs, any commodity has ups and down, but as I mentioned earlier, our focus is very strong, how to become the most cost-effective player in the industry, that is why we are expanding and putting up our coal-based power plant. So, long term, we feel we will be really competitive and also this is a good business.

Avinash Agarwal: So, when is this power plant coming up, sir?

Ajay Shriram: Our expansion at Bharuch in Gujarat, from 200 tonnes a day to 360 tonnes a day, and 48 MW coal-based power plant, should commission in July this year, in another 2 months time, and we have taken board approval to expand further from 360 tonnes a day to 440 tonnes a day, which we should do in the Q4 of this financial year.

Avinash Agarwal: On the power plant, would you further expand the power plant and how is the fuel linkage?

Ajay Shriram: We will not expand the power plant because up to 440 tonnes a day this power plant is capable of producing enough power. In terms of fuels, we are looking at what is available, as lignites, etc., as well as we are going to be importing coal because it is right off the coast. Our plant is in Bharuch, which is very close to the coast. So, we plan to import coal over there and use that.

Avinash Agarwal: Okay thanks. On the Fertilizer business, you just mentioned that you would probably not invest for expansion at this point in time. Would there be any possibilities of debottlenecking or probably running the plant at a higher utilization level? What is the maximum possible volume that will be generated?

Ajay Shriram: This is a government controlled industry and unless government policy is clear on what we can do and can't do, I think no industry is at liberty to take unilateral steps, so we are actually waiting for the policy. If the government has a conducive, practical policy, we might be able to produce more by 10%, 12%, if it makes business sense we will look at it.

Avinash Agarwal: Assuming that there is a conducive policy, how much is the utilization level that you can stretch?

Ajay Shriram: We can go up maybe between 5 and 10%, spending in summer a little less, winter a little more, so it is in that range.

Moderator: We will move on to the next question. Next question comes from Mr. Rishabh Bothra of B & K Securities. Over to you sir.

Male Speaker: Sir, could you provide some information on the cane pricing issue that is going on.

Ajay Shriram: Well, that is a very complex situation, as you know, there is an SMP which is advised by the CACP at the center, and there is a state advised price. The state advised price two years ago, has jumped up quite a bit. Last year again with the cane price we could not have a settlement and an agreement with the state government, so ultimately the industry had to go to court, and the High Court has said that a price of Rs.110 should be paid in U.P. for this current sugar season, 2007-08.

Rishab: Sir, this is Allahabad High Court?

Ajay Shriram: Yes, we have paid at Rs.110. This case is not yet fully settled. I understand today the Supreme Court also has withheld this judgment and said Rs.110 is correct. Until the final hearing, the industry will pay at Rs. 110. That has come by the Supreme Court today, so under those circumstances we have also paid at Rs. 110 like everyone else, and then once the court comes out with their policy of how much price should be paid, then it will be between the center and state.

Rishab: Okay sir. Sir, Lucknow bench has said something, not Rs. 110. This Rs. 110 was said by Allahabad bench.

J. K. Jain: No, this was confirmed by the Lucknow bench for 2007-08. Allahabad bench had said that about 2006-07.

Rishab: Okay.

J. K. Jain: For 2007-08, it was directed by Lucknow court.

Rishab: So, 2007-08, it was directed by Lucknow court and Supreme Court recently said that Rs. 110 is to be paid.

J. K. Jain: Supreme Court has confirmed the order of the High Court till final decision.

Rishab: Okay, and for 2006-07, what is the status sir?

Ajay Shriram: 2006-07 is already paid, the old price of Rs.125, which was the price at that time. We have no outstanding. We paid it off almost 5 months ago, we cleared our total outstanding. You know, as a policy, we believe, if you want a long-term relationship

with the farmers, we can't expect to have that, if we don't pay them for the cane whatever the policy, so we paid them many months back.

Rishab: So, what is the current outstanding for current year?

J. K. Jain: As of now, it will hardly be anything, couple of crore that is all.

Ajay Shriram: May be a couple of crore, you see there is a policy that you have to pay within 14 days, and we have to abide by that, so we really have got no outstanding.

Rishab: Sir, what is net debt outstanding as on books, 31st March?

J. K. Jain: The total debt was about Rs. 1,758 crore as on 31st March 2008.

Rishab: Okay, that is all from my side.

Ajay Shriram: Okay.

Moderator: Thank you very much sir. Participants who wish to ask questions, may kindly press *1 on the telephone keypad. Next in line, we have Mr. Avinash Agarwal of Sundaram BNP Paribas. Over to you sir.

Avinash Agarwal: Sir, you were just mentioning about, I mean saying about the sugar business are there any further new capacities coming on stream for distilleries or co-gen in the next season?

Ajay Shriram: Well, in co-gen we are already implementing an expansion of 24 MW, which will be commissioned by October this year before the start of the next season. We will go from 70.5 MW to about 94.5 MW in total for all our sugar businesses, and we will export about 51 MW, but beyond that we are not looking at any further expansion of sugar, co-gen or ethanol.

Avinash Agarwal: How much is exportable surplus you said?

Ajay Shriram: It will be about 51 MW.

Avinash Agarwal: Fine, and in terms of distillery capacities?

Ajay Shriram: No, we don't have any distillery.

Avinash Agarwal: We don't plan to be there sir?

Ajay Shriram: We are not looking at that right now.

Avinash Agarwal: Okay, and overall, net debt of the Company, what would that number be?

J. K. Jain: The total debt was Rs. 1,758 crore as on 31st March, 2008.

Avinash Agarwal: Okay, and net debt?

J. K. Jain: Net debt means?

Avinash Agarwal: Minus any cash balances.

J. K. Jain: Carrying Rs.150 crore of fertilizer bonds if you reduce that, it was Rs. 1,600 crore.

Avinash Agarwal: Sir, what is the composition of working capital in this debt?

J. K. Jain: Rs.1,000 crore is long term, balance is working capital.

Avinash Agarwal: What is the plan of the Company to bring the debt level down, what kind of targets do you have?

J. K. Jain: No, we feel the long term debt is pretty okay about Rs. 900 to Rs. 1000 crore. The working capital loan is very cyclical in our case because it relates to the sugar inventory and fertilizer outstanding, so it keeps coming up and down depending upon these two variables.

Avinash Agarwal: Fine and you would not have any arrears or provisioning to make for the cane payments for last season and the on going season.

Ajay Shriram: We have paid all our dues.

Moderator: Thank you very much sir. Next in line, we have Mr. Dawal Seth of Isha Securities. Over to you sir.

Dawal Seth: Yes, congratulations for your Q4 results.

Ajay Shriram: Thank you.

Dawal Seth: Sir, by when will the Hariyali Kisaan Bazaar and Fenesta Building Systems businesses be operating successfully?

Ajay Shriram: Well, I mean, it is running successfully even now, but as we mentioned earlier that we expect in 12 to 18 months, our Fenesta business should be positive in terms of profitability. Hariyali being a retail business, it takes time in the villages, it is a little capital investment driven also, and you know, Hariyali is a type of business where the faster you grow the more money you have to put in, so the number of shops which have been there for a longer period of time may be 2-3 years will break-even so we should be in a positive situation on Hariyali.

Dawal Seth: What is the expected profit margin?

J. K. Jain: Profit margin on?

Dawal Seth: When it will break-even, what is the expected profit margin?

Ajay Shriram: Of Hariyali?

Dawal Seth: Hariyali and Fenesta, both the businesses.

Ajay Shriram: At a total operating level, as a total business, I don't have the margins right here, but as a business, as I mentioned, in 12 to 18 months we should be positive in terms of bottom-line in Fenesta business.

Dawal Seth: Okay, and second thing, sir how do you see the sugar industry faring?

Ajay Shriram: Well, sugar, in the last 6 months the industry situation has improved, the realizations have become better, because of the loss on the cane pricing, we feel that with the courts now totally into it, there should be some rationality in cane pricing in the future, and the sugar stocks are also coming down, so in the next year or two, we feel this should be better than what it has been in the past.

Dawal Seth: Will we be able to sustain the Q4 margin?

Ajay Shriram: Well, we hope so. I think, you know, because of the cane pricing issues and because of the sugar price, which are really beyond the control of the industry. I think the government also realizes that unless there is a healthy sugar industry, the effect of which is on the farmer, we can expect it to be somewhat more stable than what it has been in the past.

Dawal Seth: Okay and we have closed this textile unit at Delhi right now?

Ajay Shriram: Well, that closed in 1996, as per the Supreme Court order, and thereafter, this is the land which we sold last year, in August last year. Today, we have spinning mills running in Tonk in Rajasthan, as part of the agreement with the Supreme Court, we have to relocate, provide jobs to the people, so we are running the spinning operations even today in Tonk in Rajasthan, which was as per the Supreme Court order of 1996.

Dawal Seth: Okay, and will the Chemical business slowdown?

Ajay Shriram: We don't expect it to. We have found that the Chemical business has grown well, and we are fairly cost competitive in this business. With our expansion, our unit cost will come down even further. So, the expansion will help as well as going in for a thermal based power plant will help, so both these will make us more cost competitive.

Dawal Seth: How much top line will we get in FY09 from the Chemical business?

J. K. Jain: See, our production should be closer to about 200,000 tonnes; price you know is very difficult to forecast. We can't give you a number on turnover but quantity will be about 200,000 tonnes.

Dawal Seth: 200,000 tonnes, okay, and what is the debt equity ratio right now?

J. K. Jain: Debt equity with long term loan will be about 1:1 and total about 1.4:1.

Dawal Seth:How do you see the Plastic and Cement businesses?

Ajay Shriram:Well, we are seeing Plastics has also been fairly robust, with the construction industry moving well, and with economy moving at 8% plus, we have seen the polymer industry has moved well over the last couple of years. As you may be aware, we expanded our plant just about a little over a year ago. So, now, we are at a larger capacity of 70,000 tonnes a year, and we are quite, quite positive on this business. Regarding Cement, we have actually a small plant, 4 lakh tonnes a year, because it is more of a pollution control plant for making our PVC product, the realizations are fairly good. The expectations for the next couple of years are tremendous and with a lot of capacity coming in, there may be some pressure on prices.

Dawal Seth: Will we expand our Cement capacity?

Ajay Shriram: We are not looking at that directly; we are looking to see whether we can change our capacity at Kota from a wet process plant to a dry process plant. If that entails the margin expansion in capacity to make the whole economics work out, we will definitely look at that.

Dawal Seth: Will we sustain the Q4 margin in the Cement business?

Ajay Shriram:We hope to,, I think cement projection is, you know, projecting the future is always something which is a little dicey, but we expect the industry to perform satisfactorily in the next 8-10 months.

Dawal Seth: Okay, is there any land realization in the near future?

Ajay Shriram:We just sold a piece of land in August last year for Rs. 1,675 crore (50% was our share). We don't have any other large chunk of land unfortunately which is so valuable.

Dawal Seth: Okay and what is the management plan to reduce the Rs.80 crore interest, for the year?

Ajay Shriram:Well, you know, our approach is really how do we maximize our EBIDTA and how do we improve the bottom line, and that is the combination of our own

costs, our own efficiencies and the market. Considering that scenario, our objective is to reduce interest rates on a continuing basis, so we are working on that.

Dawal Seth: Okay sir, all the best for your future.

Moderator: Thank you very much sir. Participants who wish to ask questions may kindly press *1 on the telephone keypad. Next in line, we have Mr. Avinash Nahata of IL & FS Investsmart. Over to you sir.

Avinash: As you have reported Hariyali as a separate segment this time, I have a liberty to ask a few questions.

Ajay Shriram: Yes.

Avinash: One is the basic evolution of this model. My question is regarding this selling merchandize on credit, is this a concern as far as scalability is concerned, selling your merchandize on credit?

Ajay Shriram: We are not selling any merchandize on credit.

Avinash: That is what my question is. Is this a concern?

Ajay Shriram: We sell everything on cash.

Avinash: Do you look at this as a concern as far as scalability is concerned, where farmers are used to buying a lot of merchandize on credit?

Ajay Shriram: Not at all. We actually have been running Hariyali now for the last almost 5 years, and we have never had this issue of farmers coming, yes, if they want credit, they can get credit. We tied up with ICICI bank, we tied up now with HDFC bank, so they get credit from the banking system, so that is great, but as far as we are concerned, as far as Hariyali's business model is concerned, we do not provide credit at all.

Avinash: Of course, they will not get credit for the basic merchandize.

Ajay Shriram: Yes.

Avinash: So, my question is, is this a concern for you to scale?

Ajay Shriram: No, we are not finding that.

Avinash: You are not finding that.

Ajay Shriram: Our plan is really, we are 160 stores and centers as of 31st March 2008. By 2009, 31st March, we want to be 300 plus and then grow beyond, for other years also

at the same pace if not faster. So, we have not considered this issue of credit availability as a constraint in thinking of our growth plans. We have not looked at that.

Avinash: Second question is on our sugar realization.

Ajay Shriram: Yes.

Avinash: It is 1356 for the quarter.

Ajay Shriram: Right.

Avinash: Why is it less as regards to most of the companies who have reported it for this quarter?

J. K. Jain: See, sugar is sold by different companies in different markets, it is difficult to compare across companies without knowing the market. We are in central U.P. and in that market, we compare our realizations everyday, our realization is comparable to all others.

Ajay Shriram: Which markets are you comparing with?

Avinash: It is not specific, what you are saying is, I understand that market which will be closer to Calcutta would fetch more prices and that closer to the western side will fetch lower prices. That is absolutely correct. What I wanted to find out is there any specific realization issue or it is comparable?

Ajay Shriram: This is a very important point, which top management looks at on a daily basis, and the realization and selling price decisions are not left to junior people to decide. It is something which is done at the senior most level, and that is something where we are very comparable. We, in fact, our MIS system actually has a system of comparing prices of other manufacturers in our zone, and we have never felt in the slightest that we are lower than anyone else.

Avinash: Okay.

J. K. Jain: Our quality is also better than the others, so there is no reason for prices to be lower.

Ajay Shriram: Yes.

Avinash: Okay, I am through with my questions, thank you.

Moderator: Thank you very much sir. Next in line, we have Bhargavi of Reuters News. Over to you ma'am.

Bhargavi: I just needed to get a few clarifications on the Hariyali expansion plans.

Ajay Shriram: Yes.

Bhargavi: You said you plan to invest about Rs. 70 to Rs. 100 crore to take the number of outlets to about 300, right?

Ajay Shriram: That is right.

Bhargavi: And all this investment is going to happen in this year, 2008-09.

Ajay Shriram: That is right. What we are looking at is about Rs. 100 crore which is going in this financial year, 2008-09, for expanding because we have some as we call centers where we buy between 3 to 5 acres of land and build up on the campus, and we plan to do outlets say 180 outlets, may be about 35% will be centers, and the balance we do as stores, where we actually rent space, between 5,000 to 7,000 square feet is the area of each of the stores, and we rent that with people who make it for us, you know, so our specifications come in there, and that is rented. So, considering the combination of both these, we plan to grow by about 170 to 180 outlets in this year.

Bhargavi: Right, from the current?

Ajay Shriram: Today, we are 160 outlets. As on date, actually at 163 outlets.

Bhargavi: So, going to 300 outlets would take a lot more investment than the Rs.100 crore you are talking about right?

J. K. Jain: No, it will involve that kind of, like CMD said, it is only the centers which involve capital expenditure, not the stores, and the centers will be only about 30 to 35, which we will add during this year.

Bhargavi: Right.

J. K. Jain: So, our expenditure will remain about Rs. 70 to Rs. 100 crore depending upon the land sizes.

Bhargavi: Okay, right.

Ajay Shriram: On the stores, when we are looking at the Hariyali growth, we are talking of things where really there is retail business and the shop, set up, etc., but as you may be aware, we have also gone into warehousing receipts, and we have already got 5 warehouses running, under installation, they are just being commissioned where it is over 1 lakh square feet of warehouse which we are providing, where we give the receipt of some material and the farmer can then encash that and get loans against that. So, we are studying that, so if that comes up in more of our centers, there will be some more additional capex. It is not something which is going to be say double of what we are saying.

Bhargavi: Right.

Ajay Shriram: It is not going to be double of what we are saying it will be in that range, of Rs. 100 crore.

Bhargavi: Right and you said you would also be open to looking at getting in private equity investments for Hariyali, are you in talks or what exactly is the plan there?

Ajay Shriram: This is something we have been discussing internally. We have not yet decided the time when we will actually branch it off or hive it off as a 100% subsidiary, but in due course whenever we do, yes then we will get into serious dialogue with companies who have invested and working with us on that.

Bhargavi: Right. Sir, in terms of growth outlook for the full year, what kind of growth are you looking at for 2008-09?

Ajay Shriram: Difficult to give in terms of figures, but we feel it is fairly healthy, we feel the business is growing well, our capacities have grown, we have got our Chlor-alkali expansion happening. Our co-gen capacity is increasing in our sugar factories, it will all add to the bottom line, and the top line. So, we feel there should be healthy growth for the coming year. Sugar operating environment also has undergone a change that is also a positive thing happening this year. Our Fenesta business has rolled out well. Hariyali, because it is growing, will eat up some cash but this is a part of the business plan.

Bhargavi: Right.

Ajay Shriram: Fenesta, as I mentioned earlier, between 12 to 18 months, we expect it to come into a profit situation, so with that we expect a fairly satisfactory year.

Bhargavi: What kind of realizations are you looking at in the Sugar business?

Ajay Shriram: It is difficult to project. You know, it is so difficult to make a guest estimate because it depends a lot on what the government releases on a monthly basis.

Bhargavi: Right.

Ajay Shriram: One does not know, as of now, our realization is about Rs. 1,450.

Bhargavi: Right.

Ajay Shriram: It is very difficult to estimate what is going to happen.

Moderator: Thank you very much sir. Next in line, we have Mr. Shekhar Singh of Goldman Sachs. Over to you sir.

Shekhar Singh: Just wanted to know, now that you are getting into SSP, this acquisition which you mentioned in the opening remarks. This was quite a dirty industry till some time back, like making money was almost impossible. So, now that you are entering into this, are there some specific reasons behind it or?

Ajay Shriram: Well, as I mentioned, that you know on the 30th of April, the government has come out with a new policy on SSP.

Shekhar Singh: And how does that policy work?

Ajay Shriram: The policy is much more rational and much more practical where they are you know updating the cost on a monthly basis. They have decided that the selling price of SSP will be decided by the center, like it is for urea, DAP or MOP. Earlier on, it was left to the states. So, with that sort of situation now, there is some more rationality coming into the industry, and we expect that it should be a better business. And, frankly, for us, there is a large agri portfolio, which we are selling through our agri inputs marketing channel of our urea, which is almost 500 wholesalers and over 10,000 retailers through our Hariyali Kisaan Bazaar outlets. That really adds to our portfolio, so it strengthens our offerings to the farmer.

Shekhar Singh: But for this company which you acquired, can you expect 20% sort of margins in this business, for this Rs. 8 crore that you are spending?

Ajay Shriram: I think it is too early to say what the margins would be. I think once we really understand the operating environment and government policy and we start operations, we will get a clear picture. At the moment the plant has not been running.

Shekhar Singh: Okay.

Ajay Shriram: So, it is a little early to get into that.

Shekhar Singh: Okay, thanks a lot.

Rajiv Sinha: The other thing is the issue of dirty industry, I think this new policy also states that anybody who is producing less than 100,000 tonnes has to market it to through an established fertilizer company, that itself will bring in a lot of discipline in terms of quality and trade practices.

Shekhar Singh: Okay.

Rajiv Sinha: So, all these small time operators cannot directly market their material, and if they are selling to a large company, they will have to ensure quality and quantity, etc.

Shekhar Singh: Okay.

Rajiv Sinha: So, hopefully with the phosphatic prices having gone through the roof, SSP is a wonderful solution for Indian soils, particularly because it adds sulphur. It looks like a very interesting business.

Shekhar Singh: Okay, thanks a lot sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Bhupendra Kochar of Hemchand Finance. Over to you sir.

Bhupendra Kochar: Sir, aap ke acche result ke liye dhanyavad.

Ajay Shriram: Dhanyavad.

Bhupendra Kochar: Mujhe, yeh poochna tha, Hariyali mein aap ka Rs. 29 crore ka loss hain EBIDTA level pe. Sir, jo current year mein outlets add kiye hain aur jo last year mein 70 outlets the, tho 70 mein woh profitable hain ki usme bhi loss hai?

Ajay Shriram: Nahi, usme loss bhi tha, jaise business grow karthe jayega, investment badtha jayega, aur established dukhane abhi hamare paas kam hai, hamare samaj se ek baar 300 or 400 dukhane ho jayangi, tab woh revenue model zyaada stable hoga, uske baad bottom line pe positive asar dikhna shuru hojayega, lekin jab 70 ka thabhi bhi loss tha, lekin is saal kyoki hum badgaye hain, loss thoda bara hai.

Bhupendra Kochar: Nahi, nahi mein us hisaab se nahi pooch raha hoon. Jo 70 stores the last year, 2007-08 mein unme profit hogana ki loss.

Ajay Shriram: Jab ek store ya center karib do saal purana ho jatha hain, usme store level mein profit aana suru ho jatha hain.

Bhupendra Kochar: Okay, and second thing is jo aapne jo SSP jo abhi aapne takeover kiye hain, isko government ki taraf se koyi additional benefit mil sakhta hai?

Ajay Shriram: Nahi. Jo government policy hain, wohi milega.

Bhupendra Kochar: Accha, wohi milega.

Ajay Shriram: Haan ji.

Bhupendra Kochar: Toh, usme, abhi additional cost bhi lagega, jaise abhi aap bata rahe the ki abhi woh working condition mein nahi hai, so usko working condition mein lane keliye bhi additional koi cost hain.

Ajay Shriram: Plant ki condition kaafi theek hai, hamare logon ne dekhi bhi hai. Mere khayal se Rs. 50 lakh ya ek crore lag jaye, alag bath hai, lekin usse zyada nahi hona chahiye.

Bhupendra Kochar: Accha Rs. 50 crore.

Ajay Shriram: Rs. 50 lakh.

Bhupendra Kochar: Rs. 50 lakh, se ek crore tak lagega.

Ajay Shriram: Haan.

Bhupendra Kochar: Aur ye Hariyali, aap kaun, kaunse states mein abhi ja rahe hain?

Ajay Shriram: Hum logo ka Hariyali abhi saath states mein hain.

Bhupendra Kochar: Okay.

Ajay Shriram: Punjab, Haryana, Uttaranchal, Rajasthan, Uttar Pradesh, Madhya Pradesh aur Andhra Pradesh.

Bhupendra Kochar: Aur kitne aap enter karne wale hain.

Ajay Shriram: Abhi hum log Maharashtra dekh rahe hain, rashtra mein suru karenge, uske baad plans mein to hamare Tamil Nadu bhi hain, Karnataka bhi hain, Gujarat bhi hain, aur due of course of time mein waha bhi jayenge.

Bhupendra Kochar: Aur jaisa abhi bata rahte the ki abhi as on date aapke 163 total outlets hain.

Ajay Shriram: Haan.

Bhupendra Kochar: So, last 1-1/2 months mein kaafi slow hogaye hein?

Ajay Shriram: Nahi, woh kya hua ki, nahi slow ki baath nahi hain. Abhi jo under construction chal rahe hain kaafi. Tho business thoda sa woh hota hi hain, kyunki under construction ho tho ek mahine mein achanak pandra – bees kuljate hain.

Bhupendra Kochar: Accha.

Ajay Shriram: You see yeh tho annual planning ki baath hoti hain. Tho, hamare annual plan mein hai ki March 2009 tak, hamare kum se kum teen sou store ho jayenge.

Bhupendra Kochar: Matlab woh confirmed hain, matlab 300 plus nahi honge ?

Ajay Shriram: Haan, plan tho wahi hain.

Bhupendra Kochar: Accha. Doosra yeh, abhi international market ko dekthe huve aur local market dekthe huve, aapko fertilizer industry kaisa dikhtha hai abhi?

Ajay Shriram: Dekhiye, fertilizer industry mein jo international market mein situation hoti hai uska asar ko India mein padtha nahi hain.

Bhupendra Kochar: Haan.

Ajay Shriram: Kyonki, hum log farmer ko badhe highly subsidized price pe fertilizer bechte hain.

Bhupendra Kochar: Haan.

Ajay Shriram: Jo high price pe international market hota hai, aur government jab import karti hai, abhi woh panache chhe million tonne urea import karne ka plan hai, woh agar chesou saathsou dollar pe import karegi, aur yahan pe sau dollars ya savasau eksau dus dollar pe bechegi, uska differential government ko bare karna padega.

Bhupendra Kochar: Sir, aage jathe kuch government policy mein change hote huve dekhna hai, matlab aapko kya lagta hai, teen saal mein?

Ajay Shriram: Arre dekhiye, urea ke liye government keh rahi hai ki nai policy laana cha rahi hai taaki debottlenecking ho jaye, keh rahiye nayi plants ke liye ko attractive policy karna chayegi, isiliye pandra saal mein koyi naya plant urea ka tho laga nahi hain country mein.

Bhupendra Kochar: Accha.

Ajay Shriram: So, ek cheez hai jab government policy layegi tho tab dekha jayega, abhi tho hamme maloom nahi koi policy ke bareh mein. Baat chith tho bahut ho rahi hain, fertilizer ministry, finance ministry, planning commission, sab log baat bahut kar rahe hain, pata nahin kab tak aayegi.

Bhupendra Kochar: Acha. Okay ji, thank you.

Ajay Shriram: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Vijay Raghavan of B & K Securities. Over to you sir.

Vijay Raghavan: Sir, if you could repeat the same thing what you were talking in Hindi, we could understand in English on the fertilizer price?

Ajay Shriram: I think, the question, which was asked was that, is there a new policy on the anvil. Frankly, you know the issue is of either debottlenecking of urea plant or putting up new urea plants, there is no plant which has come up in the last 15 years. Government policy has not been conducive for investments in this sector. The government is keen to augment the Indian capacity because in the last 2 to 4 years, we started importing 1 or 2 million tonnes. The estimate is this year is that we will import 5 to 6 million tonnes of

urea, and down the road, we will import even more. So, we are actually subsidizing the international players, and paying them \$ 500 to \$ 600 a tonne to buy urea, whereas the average cost in India is less than \$ 300 a tonne. So, government is saying that they want to look at some or between \$ 300 to \$ 400 dollars a tonne, let me put it, these are domestic costs. So, within this framework, we are hoping that the government will come out with a policy. The fertilizer ministry has even discussed this and has gone to the cabinet, they have had discussions there, but it has not yet been finalized. The finance ministry, planning commission and fertilizer ministry, they are involved with dialogue on this, and we hope that some long term policy does come up.

Vijay Raghavan: Could you tell me like what is our current retention price for urea, I mean our cost?

Rajiv Sinha: I think it is a function of how much LNG we use and how much naphtha we use, so it is currently varying.

Vijay Raghavan: Hypothetical situation like when you use 100% gas, what would be the cost?

Rajiv Sinha: Well, for 100% gas, with the gas pricing around \$ 16 to \$ 17 dollars, we would be close to about Rs. 21,000.

Vijay Raghavan: If it is on naphtha?

Rajiv Sinha: Naphtha would be another 15% higher than that.

Vijay Raghavan: Just 15%?

Rajiv Sinha: Yes.

Moderator: Thank you very much sir. Next is a followup question from Mr. H. R. Gala of Quest Investment Advisory. Over to you sir.

H. R. Gala: Yes, sir just two more clarifications.

Ajay Shriram: Yes.

H. R. Gala: You said that our gross debt is Rs. 1,750 crore.

Ajay Shriram: Yes.

H. R. Gala: That is after taking into account this Rs. 670 crore that we realized from the sale of land, net of tax.

Ajay Shriram: Yes, right.

H. R. Gala: Okay, so our debt has actually gone up as compared to last year.

Ajay Shriram: Because we put investments for growth.

H. R. Gala: Okay, so has our working capital increased substantially in this year because we have not spent that much money on capex sir.

J. K. Jain: No, we have invested about more than Rs. 300 crore on capex, and we have invested about Rs. 75 crore on hydel power and taking over the JV partner stake.

H. R. Gala: Oh, I see, okay.

J. K. Jain: Plus we have Rs. 150 crore of fertilizer bonds as I mentioned earlier, which we have in hand right now.

H. R. Gala: Okay.

J. K. Jain: That you need to reduce from the total debt to compare this.

H. R. Gala: Okay, because this capex of Rs. 300 crore was out of Rs. 400 crore which you said, that we are planning to spend between FY 2008 and 2009 right.

J. K. Jain: Correct.

H. R. Gala: Okay, so in FY 2009, what we will be incurring will be roughly about Rs. 100 crore.

J. K. Jain: No, see, I said that we are carrying out 3 projects, one is Hariyali where we invested about Rs. 100 crore each year, and then we invested in the Chlor-alkali project and sugar co-generation, where we are investing over two years.

H. R. Gala: Correct.

J. K. Jain: Last year, Rs. 300 crore included Hariyali Rs. 100 and Rs. 200 crore on projects.

H. R. Gala: Okay. On project side, it is Rs. 200 crore still to be spent.

J. K. Jain: Correct. Plus there will be some routine capex.

H. R. Gala: Yes, absolutely. Sir, I was just running quick numbers on our 3 major triggers that are going to come up in FY2009, one is this Chlor-alkali expansion, another is 48 MW power plant and lastly higher quantum of exportable co-gen power.

Ajay Shriram: Right.

H. R. Gala: My quick calculation says that will we be able to get amongst these three put together something like Rs. 84 to Rs. 85 crore incremental PBIT on a full-year basis.

J. K. Jain: See, those are very difficult to predict but because one has to take a view on what chlor-alkali prices will be, what sugar prices will be, so that number will be very difficult to predict.

Rajiv Sinha: I think there is a big chunk of improvement which will come will be by replacing oil-based power at our Bharuch plant, with the coal-based plant, and that is certain, that itself will be about Rs. 50 crore.

H. R. Gala: Yes, exactly.

Rajiv Sinha: So, that is on the cost side. So, that has to come unless oil prices crash or something, which is unlikely.

H. R. Gala: That is right, and since it is Chlor-alkali, I mean you don't have a pass through it will be your saving.

Ajay Shriram: Absolutely.

H. R. Gala: I know. Okay. Thank you sir.

Moderator: Thank you very much sir. At this moment, I would like to handover the floor back to Mr. Ajay Shriram, Chairman and Senior Managing Director, DCM Shriram Consolidated Limited, for final remarks.

Ajay Shriram: Thank you. Thank you very much ladies and gentlemen for joining us on this conference call. We hope we have been able to answer your queries to your satisfaction. In case, if there is anything else, please do not hesitate to get in touch with our CFO, who would be happy to answer queries in case they have not been covered. Regarding the forthcoming year, as we mentioned that our established businesses are running well, our growth plans are moving well, and on our new businesses of Fenesta and Hariyali, we are very bullish. Hariyali may take a little longer term, but the financials that we are seeing in the next 12 to 18 months should be in a positive situation, so we are quite bullish and we are positive that down the road, things will be fairly stable. Thank you once again for joining us on this conference call. Good bye.

Moderator: Ladies and Gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation, you may now disconnect your lines.

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