



DCM Shriram Consolidated Limited
Quarter One Earnings Conference Call, Financial Year 2009
August 8, 2008

Moderator: Good evening ladies and gentlemen. I am Preetam, 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 hand over the floor to Mr. Ishan from Citigate Dewe Rogerson. Thank you and over to you.

Citigate: Thank you Preetam. Good evening ladies and gentlemen and welcome to DSCL's Q1 FY09 conference call. Thank you for joining us. 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. Some of the statements made on this call may be forward looking and a note to that effect is included with the conference call invite sent to you. We will begin this conference call with opening remarks from Mr. Ajay Shriram and 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 of the company's operation in the quarter under review. Over to you sir.

Ajay S. Shriram: Thank you Ishan. A very warm welcome to all of you for joining us for the DSCL's Q1FY09 investor conference call. I am happy to state that the company recorded a strong operating performance during the quarter with both the revenues and the operating profits registering healthy growth supported by higher volumes and better margins. Higher financial charges including hedging cost for foreign exchange liabilities adversely affected the results.

We continue to progress in all our strategic initiatives in both Agri business and Chloro-vinyl businesses. We continue to record sustained long term profitable growth. Let me begin by sharing the progress on Hariyali Kisaan Bazaar business which has evolved as a 'Rural Business Center' providing one stop solution to the needs of the rural citizen. This quarter marked the entry of Hariyali in the state of Maharashtra with 7 outlets. Hariyali is now present in 8 states with 185 outlets. We have also started a warehousing activity at 3 locations and have started seed proceeding activities to increase our private label offering. We are also piloting fruits and vegetables and milk collection as new lines of businesses at Hariyali. The Hariyali business is based on a continuous engagement with rural communities, and expand our offerings to include the products and services which best meet the needs of the rural population. Accordingly, we are expanding the number of outlets to reach approximately 300 by the end of the financial year 2009.

The Agri input business which aims at providing high quality Agri inputs including hybrid seeds, variety seeds, pesticides, fertilizer, micronutrients, etc., is making good progress. The hybrid seeds business has developed strong research base and an extensive proprietary product pipeline. It has launched several new products including BT cotton which has found wide market acceptance.

I am sure all of you are aware of the challenges in the sugar sector. We are still awaiting the final decision from the honorable Supreme Court for sugarcane pricing for the year 2007-2008. However, the sugar prices are looking up in view of expected lower production in the sugar season 08-09. The expansion of our co-gen power generation capacity from 70.5 MW to 94.5 MW leading to an exportable surplus of about 51.5 MW is expected to be commissioned in the beginning of the sugar season 2008-09.

On the Chloro-Vinyl side, our focus continues to be improving cost competitiveness through economies of scale and various cost side initiatives. The 55 MW coal-based power plant at our Bharuch facility is expected to start production in the next few weeks which will enable us to derive substantial cost economies and increase production from 200 TPD to 360 TPD immediately and to 450

TPD by March 2009. We are also progressing on our initiative to build fuel security which is expected to commercialize in the next couple of years.

The Fenesta Building Systems, the world class UPVC windows and doors business is finding wider customer acceptance which is reflected in its revenues that had increased by about 24% over Q4 2008. This business was PBDIT positive in this quarter for the first time and is expected to maintain healthy profit growth in the coming years. The company last year enhanced its focus on retail sales and to achieve this, the company has set up a network of 40 dealers in 11 cities across India. The order booking during the quarter was 42,000 windows against 28,000 windows in Q4 2008 and the outstanding order book as on 30th June 2008 stands at 2.3 lakh windows.

To sum up, DSCL over the last two years has aggressively grown all its businesses with an investment of approximately 2,000 crore which has enabled it to enhance productivity and efficiency. We are now moving ahead with a well-strategized plan to further strengthen our businesses through backward and forward integration and develop new growth drivers for the company through Hariyali, Fenesta, and hybrid seeds.

Now, I will request Vikram to take you through the financial numbers for Q1 FY09. Thank you.

Vikram Shriram: Thank you. Good evening ladies and gentlemen. I would like to once again thank all of you for joining us today on this conference call. I will now summarize the numbers for the quarter ended 30th June 2008.

Our net revenues grew by 29% to Rs. 793 crore compared to Rs. 616 crore in the corresponding quarter. The higher revenues were driven by a 12.5% increase in turnover of our own products led by higher volume and realizations in chemicals and plastics business and an over 125% increase in Hariyali's turnover.

EBITDA improved to Rs. 68 crore, up 40% as compared to Rs. 48 crore in the corresponding quarter, led by higher margins and

volumes in most of our businesses. It is important to note that without the foreign exchange hedging cost which was Rs. 13 crore in this quarter compared to a gain of Rs. 3.6 crore last year, our EBITDA is Rs. 81 crore vis-à-vis Rs. 45 crore last year. Higher EBITDA depicts a strong operating performance of our businesses. The PAT for the quarter stood at Rs. 4.87 crore against a loss of Rs. 7.77 crore in the corresponding quarter.

The highlight of the quarter was the positive operating margin from our present Fenesta business which showed a turnaround in this financial year...which should turn around this financial year and the continued buoyant performance of the Agri and foods business. The chemicals and plastic businesses saw an improvement in operating margins and higher volumes. The fertilizer business witnessed an improved profitability due to energy efficiencies rising from higher use of LNG which reached 54% for the quarter. The sugar business is also on a turnaround with better realizations in view of estimated lower production for the sugar industry in the ensuing season 2008-2009 though cane prices continued to be area of concern.

Hariyali Kisaan Bazaar posted higher negative earnings, which is in line with our plans to invest and grow this business and evolve it as a value as well as volume driver for the company.

The financial charges including interest and foreign exchange hedging costs move up due to higher interest rates and higher hedging premium. These are likely to remain high for the short term.

The margin outlook for plastics, chlor-alkali, and sugar businesses continues to be positive. The completion of coal-based power project at Bharuch during the second quarter and 24 MW co-gen project at sugar during Q3 FY09 will provide substantial economies in the balance year. Fenesta and polymer compounding businesses are also expected to give better contributions in this period.

With that, I would like to conclude. Thank you once again for joining us on this conference call. We will be happy to answer any questions that you may have. Thank you.

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 Parul Patel from Avendus Capital.

Parul Patel: I just wanted to know at what price you have sourced LNG.

Ajay S. Shriram: Well, we are right now buying only on spot basis. So, the prices have ranged anywhere, from about 12 USD to about 20 USD.

Parul Patel: So, your average cost would be about...

Ajay S. Shriram: It is very difficult to give an average because there is a sharp fluctuation in the availability. As we have said, the quarter availability was about 54% and varies between 0 to 90%. The average price would not be a very fair representation at this point.

Parul Patel: Alright. So, it is in the range of USD 12 to USD 20.

Ajay S. Shriram: That's right. And the naphtha, you know, has been in this period ranging from about USD 25 to USD 30. So, it is clearly evident that even at USD 20 which is the highest cost, it was still economical and more competitive to make it from LNG.

Parul Patel: You mentioned in your press release that you are trying to get long-term contracts for your LNG sourcing. Could you give us some timeline?

Ajay S. Shriram: I think this is the situation with most of the fertilizer plants who don't have APM gas and who are trying to source long-term contracts. Reliance's position is obviously critical to this position. I can't give you a timeframe just now, but we are hoping that by the

time this calendar year ends, there should be much greater clarity on the long-term tie-ups.

Moderator: Thank you very much. Next in line, we have Vinay Pandit from Maximus Capital.

Vinay Pandit: I just wanted to confirm how the growth in your Hariyali Kisaan business during the quarter is.

Ajay S. Shriram: Like we said in the speech, the turnover went up by about 125% and the number of outlets has gone up to 185 as of now

Vinay Pandit: Right. And if I look at the growth, how is the growth in the same stores, basically if I exclude the new stores which have been set up in the quarter or the year before that.

Ajay S. Shriram: That is difficult to say because what happens is most of these stores come up in the same region also, so some of the sale gets divided between these, so I don't think that would be the right comparison to do.

Vinay Pandit: And within the business, if I look at Hariyali Kisaan Bazaar, you are selling Agri products, FMCG, lifestyle product and how has been the growth in these individual segments?

Ajay S. Shriram: All the segments have registered good growth. I don't think we will have the numbers segment-wise right now. We can give it to you and you can get in touch on phone with us.

Moderator: Thank you very much sir. Next in line, we have Pallavi Kedia.

Pallavi Kedia: What would be the unsold stock of Sugar for your company as on 30th June 2008 and also for the industry?

Ajay S. Shriram: Sugar unsold stock as on 30th June was about 27-28 lakh bags, that we were holding on.

Pallavi Kedia: Any idea on the industry-wise unsold stock?

Ajay S. Shriram: I don't think I have it right now, but as of season-end, people are expecting about 9-10 million tonne as the stock.

Moderator: Thank you very much. Next in line, we have Gaurav Garg from Enam Securities.

Gaurav Garg: Do we have any coal linkage or captive mines?

Ajay S. Shriram: For the coal-based power plants, we have coal linkage for all our requirements. Kota is basically where we have the largest one which is 130 MW and we have a coal linkage for that which is available. Occasionally we have a problem by which we have to move coal by road or we have to use one or two rakes of imported coal also, but almost 90% of our requirement is met through our linkage. For our requirement in Bharuch which is a 55 MW power plant will come up we plan on using imported coal. So, as of now, we already have a stock of almost I think about 60,000 tons of coal available in Bharuch which is imported. So, we will continue using that same source of coal.

Gaurav Garg: What has been the outlook for caustic soda for this quarter, the realizations and if you can give some outlook.

Ajay S. Shriram: We can just work out the figures but generally we find that the demand is moving well. The overall economic growth is also helping in a product of this nature and we have not really had any situation of seeing a dip in prices. Prices have moved satisfactorily at this time.

Moderator: Participants who wish to ask questions may kindly press *1 on your telephone keypad. Next in line, we have Ankit Sancheti from Birla Sunlife Insurance, Investments and Treasury.

Ankit Sancheti: Can you throw some light on this new fertilizer policy, was it in line with your expectations. Though the whole document would not be in front of you, but what was your first sense of the policy

Rajiv Sinha: I think this is broadly in line with what we understand. Cabinet has approved the new investment policy today. As far as we know

from our interaction with the ministry earlier, it is basically bringing in the concept of pricing based on import parity with a floor and a cap and defining it for people who want to revamp, who want to do expansions, and who want to create Greenfield plants. I think it is early days yet to say whether this will actually attract investment or not because this policy is one side, but on the other side there is a huge issue of overhang of unpaid subsidy areas or being paid through fertilizer bonds. So, I think in the short term it is very difficult to say whether just the enunciation of this policy would encourage investment because of the uncertainty about payments.

Ankit Sancheti: Does this policy in any sense affect your existing business. It affects more often an incremental capacity expansion, or it does not?

Rajiv Sinha: That's right. It does provide opportunity. People who want to do marginal de-bottlenecking or who want to make expansions...

Ankit Sancheti: Yes.

Rajiv Sinha: ...at least the rules of the game have been clarified.

Ankit Sancheti: Sure. So, in light of this, were we thinking something earlier and will we do some CAPEX in this part of our business?

Rajiv Sinha: I think it is early days. As of now, we do not have any plans. Also as I said earlier, I think...and I can probably say it for most of the industry that this issue of pending payments, we expect the subsidy size to be more than Rs. 120,000 crore and the provision is not even one-fourth of that. So, I think somewhere this is right now the biggest factor hanging on the industry and this will certainly put a bit of a dampener in people's plan to invest.

Ankit Sancheti: Okay. Now, coming to Hariyali Kisaan Bazaar, to scale up from 185 to close to 300...which is practically doubling or less than doubling your outlets...how much incremental CAPEX money will be invested in this business?

Vikram Shriram: I think it will depend. Our stores we open are a mix of two types.

Vikram Shriram: One is where we buy the land and then build on it.

Ankit Sancheti: Okay.

Vikram Shriram: So, that is a little higher CAPEX. And the other is where we rent property in villages, where we open our stores.

Ankit Sancheti: Sure.

Vikram Shriram: The first one where we build on it, we call it as centers because that is a much larger complex and the other one is stores.

Ankit Sancheti: Sure.

Vikram Shriram: So, we expect that for our CAPEX, for the balance about 115 to 120 stores and centers...we will spend between Rs. 50 to Rs. 75 crore in our centers... and of course some of the work which will be required in our stores for just revamping and painting and cleaning and all that. So, it is not that heavy CAPEX for the next six months

Ankit Sancheti: So, around Rs. 50 Crore, 70 Crore, or Rs. 80 Crore will be required for scaling up from 185 to 300 outlets, is that what you are saying?

Ajay S. Shriram: Yes, incremental over whatever we have invested so far, will be of that magnitude.

Ankit Sancheti: Sir, once we reach 300 outlets, how much money total would have been invested in this Hariyali Kisaan business?

J.K. Jain: Close to about Rs. 450 crore in terms of capital employed which includes the working capital also.

Ankit Sancheti: Okay. Out of this 300 stores targeted by March 2009, how many will be centers and how many would be stores per se?

Ajay S. Shriram: We are looking at about 90-100 centers and balance are stores.

Ankit Sancheti: 100 centers and 200 stores?

Ajay S. Shriram: Correct.

Ankit Sancheti: Okay. In terms of outlook, Hariyali Kisaan Bazaar, I think has been progressing as per your expectations.

Ajay S. Shriram: Yes.

Ankit Sancheti: If I am not mistaken, how do we scale up, after reaching 300, will we try and consolidate at these levels, try to make this business a break-even and then we will expand or we will keep on expanding till we reach a particular size and if that is the case, what is that size you are looking at?

Vikram Shriram: There are two-three things we are looking at. One is of course increasing the retail format by adding more centers and stores and our plan is over the next four-five year period to reach at least 1000 centers and stores for the total group, but I think more important part also is that we are actually evolving into a one-stop shop for the rural population, where besides just the retail outlets we are moving as aggressively and more on banking also. We already have tied up with an insurance company.

Ankit Sancheti: Sure.

Vikram Shriram: As I mentioned earlier, we started warehousing activity where we provide the warehouse to the farmers to keep the produce. If someone wants, they can take the seeds from the warehouse and go and encash it. They can actually get money against their stocks kept in our warehouses. They are looking at fruits and vegetables, so we can complete the chain with the farmer and supply that into the cities from the rural areas because we have the advantage of having a large spread of physical presence in rural India which can tap into the village output.

Ankit Sancheti: Sure.

Vikram Shriram: We are also looking at milk collection which we want to start again. So, that again is a value-add and that can actually have a

positive multiplier effect on the income level of the rural community. That actually increases their income ...

Ankit Sancheti: Propensity to consume more.

Vikram Shriram: That is also happening.

Ankit Sancheti: Yes.

Vikram Shriram: And we are also considering many other things. We are looking at it. Once we have got such a strong presence on the rural landscape of the country, what more is it that we can provide as a value add which can make it a win-win situation for the rural consumer and for us.

Ankit Sancheti: Yes.

Vikram Shriram: So, we are going to continuously keep exploring and add more.

Ankit Sancheti: Absolutely. I understand that fact that we want to increase our exposure to the retail segment and provide more value added services to those guys...

Vikram Shriram: Right.

Ankit Sancheti: ...but at this level do you assume that this business can break-even in probably the next two-three years, it should be more of a cash intake kind of a business and it won't throw off any cash.

Ajay S. Shriram: Yes, at PBDIT level, we are looking at breaking even after about two years.

Ankit Sancheti: And it will be after a certain store size, I mean after say once we reach 500 outlets or it would be....

Ajay S. Shriram: Yes, over 500 outlets, correct.

Rajiv Sinha: I just want to add, you know, this is also an issue of how many...in a given financial year, how many new outlets we have opened versus the number of older outlets because newer outlets once they

are opened, they take a few months or a little longer time to stabilize and start generating let's say profits.

Ankit Sancheti: So, if I get it right, probably of 185 outlets right now, okay, if I assume 100 were opened in the last two years, 60% to 70% of those outlets might break-even at this point of time or if you can share us with the number of outlets which will be breaking even at this point of time, I understand new outlets will take time, probably 12 months or 1 year.

Vikram Shriram: Typically in about 1-1/2 to 2 years' time the outlets will start breaking even.

Vikram Shriram: Yes.

Ankit Sancheti: In terms of Bharuch facility, you said that it is a 55 MW coal-based power plant and you are trying to source coal from imports, is that right?

Vikram Shriram: We are already doing it now, not trying but we have done it.

Ankit Sancheti: Yes, at what price... because the coal prices have gone up pretty sharp in the last couple of months.

Vikram Shriram: They have. I will just check if we have the price, but let me put it this way...

Ankit Sancheti: And if at that price it makes sense to....

Vikram Shriram: No, I am telling you today we are using furnace oil and compared to furnace oil, coal-based power is much more economical ...

Ankit Sancheti: Sure.

Vikram Shriram: It is going to be less than half.

Ankit Sancheti: Okay.

Vikram Shriram: So, that is why coal still in a situation of the international prices of coal, it is still much more economical and a tremendous value add

to get into coal rather than furnace oil. We have about 24 MW of furnace oil capacity which we will keep available to us as an emergency and for our downtime on our coal-based power plant.

Ankit Sancheti: Sure.

Vikram Shriram: It is much more economical and value-add to covert to coal even at this price.

Ankit Sancheti: Okay. By what incremental amount can profits increase just because of the tradeoff between furnace oil and coal? If you can share some figure, let's assume the coal prices, I don't know at what price you are buying, okay, let's assume USD 150-160.

Vikram Shriram: You know, because it is a judgment call based on the prices of furnace oil and on coal, our estimate is that in a full financial year, we should get a benefit of between Rs. 40 to Rs. 50 crore for the conversion to coal compared to furnace oil.

Vikram Shriram: And expansion is over and above that.

Ankit Sancheti: It depends on how coal moves and how furnace oil moves.

Vikram Shriram: No, no, no, the expansion of capacity because the capacity is expanding from 200 tons to 350 tons and then 440 tons.

Ankit Sancheti: Okay.

Vikram Shriram: So, the benefit of expansion based on cheaper coal-based power, the benefit of that will be over and above because both the projects which are going to be commissioned during this financial year.

Ankit Sancheti: See, this 400,000 tons capacity would be reached by March 2009?

Vikram Shriram: Not 400, our caustic soda capacity will go up to 360 TPD immediately when the power plant is commissioned...

Ankit Sancheti: Sure.

Vikram Shriram: And by March 2009, it will come to 440 TPD.

Ankit Sancheti: 440 TPD?

Rajiv Singh: At Bharuch.

Ankit Sancheti: Yes, at Bharuch. And this 55 MW power plant can sustain a 440 TPD plant.

Vikram Shriram: Yes.

Ankit Sancheti: 100% or if you have to still buy...

Vikram Shriram: No, no, this is 100%. In Kota, we have additional capacity of about 330 TPD.

Ankit Sancheti: And in terms of sugar, what are the key events, I understand the case is in Supreme Court and the court will take its own time line for making a decision. But can you throw some key data events which we can watch out for, when is the first hearing or the last hearing or...

Ajay S. Shriram: The hearing date still hasn't been fixed.

Ankit Sancheti: Right now, when you are making a payment, you are doing at Rs. 110 or Rs. 120 or at what price is the payment?

Vikram Shriram: For the last year, we have paid at Rs. 110, which was the price that was declared at that time. So, our payment is based on that

Ankit Sancheti: Okay.

Vikram Shriram: Whereas, this issue which is in court as to whether that price should be increased or not, there is also an issue of incentives which we were entitled to, under the expansion scheme of the UP state government under which we invested about Rs. 600 odd crore that is also in court.

Ankit Sancheti: Sure.

Vikram Shriram: We are expecting over the next couple months, we should get some on both these counts because our appeal to the court is that please lay down some policy guideline based on which the state can fix the price and if it is in variance with these centers SMP, which is the center price. We are waiting for that.

Ankit Sancheti: Okay.

Ankit Sancheti: If we would have done costing by Rs. 125 or the new price...instead of Rs. 110, we have done costing with the new price, not the price which is being fought out in the court.

Vikram Shriram: Yes.

Ankit Sancheti: How much incremental money would have been paid to the farmers?

Vikram Shriram: Well, for the last year, if it had to be Rs. 125 against Rs. 110, the incremental money is about Rs. 38 crore.

Ankit Sancheti: And how much subsidy are we were entitled as per the UP state policy which was there?

Vikram Shriram: As per the policy, on the capital account we should have got about a one-time subsidy of about Rs. 60 crore and on the revenue account, for 10 years, we should get approximately Rs. 37-38 crore per year for 10 years....

Ankit Sancheti: Okay. That is a sizeable amount.

Vikram Shriram: It is a very sizeable amount.

Ankit Sancheti: But then why...this is just because a change in the government and they have just removed this UP policy.

Vikram Shriram: Well, when the new government came in, they scrapped the policy.

Ankit Sancheti: On what grounds, just like that or...

Vikram Shriram: That was a decision of the state government and they have the power to do that; though the industry went to court saying that we have made an investment in the state of UP and the total investment has been almost Rs. 5,000 crore which needs to be compensated as per policy.

Ankit Sancheti: Sure.

Vikram Shriram: The benefit of that is going to go to the local community, to the farmers, to the productivity going up, and everything. And consequently it has also gone into co-gen power generation; it has gone into more ethanol production though it is a value-add to the state across the board.

Ankit Sancheti: Okay. Post this new expansion, how much will your capacity of sugar and co-gen be?

Vikram Shriram: Well, we have completed that and today we have a capacity to crush 33,000 TPD of sugarcane in all our four factories.

Ankit Sancheti: Okay.

Vikram Shriram: And by October this year, our total co-gen capacity will be about 95 MW out of which we can export about 51 MW.

Ankit Sancheti: And how much this 51 MW can yield you in terms of revenue?

Rajiv Sinha: In terms of revenue, about Rs. 50 crore.

Ankit Sancheti: Tax-free revenues?

Vikram Shriram: No, this is revenue not profits ...

Ankit Sancheti: No, but how much profits will it generate?

Vikram Shriram: I think it will be maybe around 25% to 30%. You see what happens is frankly we can't give a figure like this because it depends on the bagasse price ...

Ankit Sancheti: Sure.

Vikram Shriram: Our view is that bagasse has to be on a transfer pricing basis and if the price of bagasse in the market is better, we will not produce power, but we will sell the bagasse in the market.

Ankit Sancheti: Yes, Yes, that's right.

Vikram Shriram: So, it will depend on that.

Ankit Sancheti: Sure, absolutely. In terms of 27-28 lakhs of bags as at closing stock at June 2008, at what price are we carrying this inventory, price per kg or something if you can share us.

Ajay S. Shriram: I think it would be roughly about Rs. 14 a kg.

Ankit Sancheti: Is Rs.14 a kg. the closing stock price.

Ajay S. Shriram: Yes.

Ankit Sancheti: And what is the current realizations we are getting in sugar at this point of time?

Ajay S. Shriram: Last sale that we had done was at about Rs. 17 plus. That happened in this particular quarter and not in the last quarter.

Ankit Sancheti: In terms of debt, how much debt is there on the balance sheet at this point of time, either long-term, working capital, or short term.

Mr. J. K. Jain: Yes, long term is about Rs. 1000 crore and short term, of course, varies quite a bit, but last month's figure must be about Rs. 700 crore.

Ankit Sancheti: Rs. 700 crore. And in terms of total CAPEX, how much we are looking for this year, next year, 2009-10 if you can just share something?

Mr. J. K. Jain: About Rs. 400 crore this year.

Ankit Sancheti: And this will be broadly, say Rs. 70 to 80 crore will go for Hariyali Kisaan Bazaar.

Mr. J. K. Jain: No, for the year as a whole, it will be about Rs. 150 crore because we have already done Rs. 60 to 70 crore earlier and balance will be on Bharuch and this co-gen thing that we are looking at in sugar.

Ankit Sancheti: Okay. And thereafter say for example in FY10, incremental CAPEX will be lower.

Mr. J. K. Jain: Yes, it will be much lower because largely as of now it is formed up only for Hariyali only.

Ankit Sancheti: Yes, it is more or less for Hariyali Kisaan Bazaar.

Mr. J. K. Jain: Yes.

Ankit Sancheti: And in terms of Fenesta, how is the business outlook, you said it has wider acceptance and EBITDA positive at this point of time.

Vikram Shriram: We expect a positive outlook.

Moderator: Thank you very much. Next in line, we have Mr. Dhaval Sheth from Isha Securities.

Dhaval Sheth: Yes sir, congratulations sir. We appreciate your management for your investment friendly relations and for every quarter on quarter holding this conference call. Sir, we are very happy regarding your plastic and cement business, but why so much poor performance in sugar business, we were expecting much on that business.

Vikram Shriram: You know, I think sugar for the last couple of years, if you see the industry in totality; the sugar prices reached its lowest level may be in last 10-15 years at Rs.12 a kilo for the price. That did not even cover our direct material costs because the cane price at that time two years ago was Rs. 110 and Rs. 125 two years ago.

Dhaval Sheth: Okay.

Vikram Shriram: Cane at Rs 125 and if I take the recovery average of 10 that shows that the cost of our sugarcane itself at Rs. 12.50 per Kg of sugar and our realizations were Rs.12 or Rs.13 which does not include

the additional processing charges of our chemicals and sulphur and all the labor cost, overheads, etc

Dhaval Sheth: Okay.

Vikram Shriram: So, that is why the sugar industry in totality was in deep trouble.

Dhaval Sheth: Okay.

Vikram Shriram: And if you would see the financial figures of all sugar companies they have been under tremendous stress as we discussed with our last participant.

Dhaval Sheth: Okay.

Vikram Shriram: Now that the sugar prices are looking up we expect that this will have a positive impact on the industry in general and on us as well.

Dhaval Sheth: Right.

Vikram Shriram: We have, we believe, fairly efficient operations which should be beneficial.

Dhaval Sheth: This price trend, do you continue to believe that this price trend in the sugar industry will continue?

Vikram Shriram: We do believe that for sometime it will, we are also seeing that the international prices have also gone

Vikram Shriram: And next year we expect that, the sugar production may not be as much because in states like Maharashtra and UP which are large producing states, we have already read that the sugarcane production is coming down because of the uncertain pricing of sugarcane, now farmers are finding that some of the other produce like paddy or wheat with intercropping which gives them a better realization on an annual basis compared to sugarcane, so they are shifting around

Dhaval Sheth: Will we see better quarter performance in sugar business in the remaining year?

Vikram Shriram: Well, we sincerely hope so, we are hoping that the results will be better, but there is government policy issues which are there everywhere.

Dhaval Sheth: Okay.

Vikram Shriram: We are waiting for the court order also, you know one can't comment on that to say what is going to happen, but logically speaking I think we are expecting that the industry should do better.

Dhaval Sheth: Okay. And how much top line will be added by the chemical business, the new facility will start off.

Mr. J. K. Jain: On a full year basis, it will be about Rs. 150 crore.

Dhaval Sheth: Okay and the next year will be?

Vikram Shriram: No, on a full year basis, it is Rs. 150 crore. This year, it will be less because we expect to commission it in the next couple of weeks in August.

Dhaval Sheth: Okay. And do you plan to de-merge Hariyali Kisaan Bazaar?

Ajay S. Shriram: That's right. We have already said that we are looking at an appropriate time to demerger into a 100% subsidiary.

Dhaval Sheth: How much time it will be take sir?

Ajay S. Shriram: We have been debating that and discussing that. We will find when the time is right; we will do in probably the next 6 to 10 months.

Moderator: Thank you very much. Next in line, we have Mr. Pramod Tiwari from B&K Securities.

Pramod Tiwari: Sir, I wanted to know in the previous results concall we had said that we are reducing our Agri input trading business because

imported fertilizer is not attractive and was running into some losses.

Ajay S. Shriram: Correct.

Pramod Tiwari: But this quarter I am seeing quite significant improvement in revenue as well.

Ajay S. Shriram: I think we also mentioned that we are shifting our focus from bulk fertilizers to more value added products because the risk of loss and the subsidy areas in the bulk fertilizer import was running very high. So, what we have done is completely recast our marketing and product portfolio and this quarter the growth has entirely come from value-added products like specialty fertilizers, some micronutrients, Agri chemicals, and hybrid seeds including BT cotton seed. So, we are not depending any more on bulk fertilizers to pilot our growth in Agri inputs. These products actually require very close working with the farmers and I think that is the basic strength we have developed of working very closely with the farmers and given these products which actually improve his productivity and profitability. This is the direction that we will continue to follow.

Moderator: Thank you very much. Next in line, we have Nagaraju BS from ING Vysya Bank Ltd.

Nagaraju BS: Good evening sir. This is with reference to your sugar segment.

Nagaraju BS: You said the latest supply's realization is Rs. 17

Ajay S. Shriram: Yes.

Nagaraju BS: With this price trend, do you expect profitability of EBITDA level for this year end?

Ajay S. Shriram: We should get it, but as I said the uncertainty is the sugarcane pricing, I mean that is something which is a little open ended...

Nagaraju BS: Okay.

Ajay S. Shriram: However, we don't know, but at the EBITDA level, we should get profits.

Nagaraju BS: Even at Rs. 17, the EBITDA levels will be still negative sir?

Vikram Shriram: No, it will be positive.

Nagaraju BS: Okay. So, it is only depending on the minimum price procurement that you are referring to?

Vikram Shriram: No, even that. If it is at Rs. 125; even then the EBITDA level will be positive.

Nagaraju BS: Okay.

Vikram Shriram: But it obviously is substantially into the EBITDA.

Moderator: Thank you very much. Next in line, we have Shekhar Singh from Goldman Sachs.

Shekhar Singh: Just wanted to know like what is the power requirement per metric ton of your plastics business?

Ajay S. Shriram: Power requirement. I think we make two end products in our plastic business, one is calcium carbide and the other is PVC and carbide is the raw material for making PVC. At carbide level, we are at about 3,300 to 3,400 units of power per ton. And PVC is about, you know, close to about 5100 or so.

Shekhar Singh: Okay. And can you just comment on what is the pricing environment for lime, lime stone, and for your other raw materials like salt, etc.

Ajay S. Shriram: I think as far as lime and lime stone are concerned, the basic pressure has come more from two reasons. One is the freight cost and the second is for making lime, you require some kind of coke. So, as the coke prices, for example most of the lime manufacturers use petroleum coke source from Reliance and as the oil prices have increased, these prices have moved up significantly. So, these are the two reasons which lead to escalation in the cost of lime. The

lime stone cost per se has increased, but that is relatively small and the other carbon materials which go into manufacture of carbide are primarily some kind of coke and charcoal and here again as the oil prices have changed, we have seen sharp changes in the pricing of these carbon materials, but the good thing has been that the price increase in PVC has been much more, so in a sense that despite the sharp increases in raw material cost, the margins have improved.

Shekhar Singh: Okay. And sir, in your caustic soda business, what is the power requirement per metric ton?

Ajay S. Shriram: About 2,500 units.

Moderator: Thank you very much. Next in line, we have Priyadarshan from Standard Chartered.

Mr. Priyadarshan: Sir, can you throw some light on business of Fenesta Building System.

Ajay S. Shriram: Well, as you are aware, this business has grown well over the last couple of years. What change we brought about is for the last 6-8 months, besides our focus and attention on the institution segment and the commercial segment. We are now focusing very aggressively on the retail segment also. As I mentioned earlier, we have got about 40 dealers in 11 cities which are already functioning and we are now trying to capture the retail segment where the response has been very

Mr. Priyadarshan: Okay.

Ajay S. Shriram: We are seeing this as a very good and a lucrative area of growth for us because the individual customers can appreciate the value add a lot more than if it is really just for a commercial building complex or for school or something. So, that way the direction is moving well, our operations of our extrusion are at Kota in Rajasthan and our fabrication shops are near Delhi at Bhiwadi, Bombay, Hyderabad, Bangalore and Chennai which have actually strengthened our organization for our retail business on a national

basis helping us grow this and the other institutional and commercial side is growing anyway ...

Mr. Priyadarshan: Okay.

Ajay S. Shriram: So, both these are adequate focus. We are improving the visibility of our products through more aggressive advertising and promotion and directly to architects and builders as well as the general population. We are getting a very good response from advertising. So, we feel that this is our view for a country like India where the potential for growth is so large.

Ajay S. Shriram: We also have a strong application development center for instance; we have developed a new product in the last 7-8 months which can make windows, which can go up to 10 feet high and 6 feet across as slider windows and for places like Bombay and all, they are ideal because, you know, even at 20th or 25th or 30th floor during the monsoon when you get the wind and the rain coming in virtually horizontally these windows can take wind speeds of up to 3,000 pascals and are geared for such kind of a tough environment.

Mr. Priyadarshan: Okay.

Ajay S. Shriram: So, you know, they are geared for this sort of a tough environment and we have developed that in-house and in fact when our collaborators came, they were keen to take the know-how from us to their operations in the UK. We have a strong R&D application development base and we are confident that this type of a product for the Indian market made by us is attuned to the Indian market and we will gain a larger and larger market share.

Ajay S. Shriram: I will just add that. Today, we are number one and only one in this segment in the country. We have installed over 300,000 windows on an all India basis.

Mr. Priyadarshan: Yes.

Ajay S. Shriram: So, we are the largest and we are growing rapidly and is moving well.

Mr. Priyadarshan: Okay. What is the margin in that business sir?

Ajay S. Shriram: It depends on whether institutional or retail, but I think more on a contribution level; our PBDIT margin is about 20%.

Ajay S. Shriram: Yes.

Moderator: Thank you very much. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Ajay Shriram for final remarks.

Ajay S. Shriram: Thank you once again for joining us on this conference call today. As we mentioned, I hope our clarifications are in order with whatever you wanted to know. In case you would want to know anything in particular, please do not hesitate to write to our CFO or through Citigate. We will be happy to send whatever information you like and we are bullish on the way the company's operations are going ahead. Our new businesses are developing well. Our existing businesses are stable. In this balance part of the year, the commissioning of our Bharuch expansion and coal-based power plant should add substantial chunk to the bottom line. Similarly, our co-gen increase capacity and sale of power to about 24 MW. From our sugar business, once the season starts in November, which will also add to the bottom line. So, we are quite confident that the way things are going, we are on a stable footing. Our growth is going well and we look forward to sharing the details with you on the next quarter. Thank you very much.

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. Thank you.
