



DCM Shriram Consolidated Limited

Q1 FY2011 - Earnings Conference Call Transcript

July 29, 2010 at 4:00 pm IST

Moderator: Ladies and gentlemen good evening and welcome to the DCM Shriram Consolidated Q1 FY'11 Earnings conference call. As a reminder for the duration of this conference, all participants' lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by entering "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ishan Selarka of Citigate Dewe Rogerson. Thank you and over to you Mr. Selarka.

Ishan Selarka: Thank you Rochelle. Good evening everyone. Welcome and thank you for joining us on DSCL Q1 FY'11 earnings conference call. Today we have with us Mr. Ajay Shriram, Chairman and Senior Managing Director, Mr. Vikram Shriram, Vice Chairman and Managing Director, Mr. Rajiv Sinha, Deputy Managing Director, Mr. Ajit S Shriram, Director - Sugar and Mr. J.K. Jain CFO of the Company. You have to keep in mind that some of the statements being made in this call may be forward-looking and a note to that included in the release and also in the audio. We will begin this conference call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram following which we will have an interactive question and answer session. I would now like to invite Mr. Ajay Shriram to give us a brief overview on the company's operation for the period ending June 30, 2010. Over to you sir.

Ajay Shriram: Thank you Ishan. Good evening ladies and gentlemen and a very warm welcome to DCM Shriram Consolidated Limited Q1 FY'11 earnings conference call. This quarter we witnessed good performance in some of our businesses while it was challenging for a few businesses. The Agri industry portfolio of the Company, which includes the fertilizer, farm solutions and Bioseed businesses, has had very satisfying performance both in terms of turnover and profits. We expect this trend of positive improvement to continue with a satisfactory monsoon in the country.

Sugar on the other hand, has seen a fast reversal in the operating condition. As you are aware, sugar prices have fallen sharply since January, February 2010 to reach a level of approximately Rs. 26-27 per kg presently. This has meant that the margin on free sugar has shrunk from a positive of Rs. 307 per quintal during last year to a negative of Rs. 307 per quintal in Q1 this year. This has resulted in sugar earnings to turn negative to the tune of Rs. 38 Crore in Q1 this year from a positive of Rs. 6.1 Crore last year. That is a negative swing of over Rs. 44 Crore. The reduction in financial charges as a consequence of our decision to

conserve resources and reduce borrowing has helped in part mitigation of the business adversity and has helped in reducing the variation in PAT over the last year.

Let me now take you through some key developments during the quarter in our main businesses.

The fertilizer business, which is operating on natural gas since May 2009 has reported satisfactory performance with higher energy savings and lower working capital requirements, consequent to reduction in the subsidiary bill. We expect this trend to continue going forward. The government is moving ahead with finalizing the NPS IV and we hope that this policy will be reasonable and fair.

The Farm Solution business has started trading in DAP and MOP during the current year after the government's decision to shift to the neutral based subsidy in January-March 2010. We have also expanded the SSP business and our other Agri inputs business significantly. All these efforts should result in a satisfactory topline and bottom-line growth for this business in coming quarters.

Bioseed business has registered good topline and bottom-line growth during this quarter led by encouraging response to our Cotton Hybrid in India and Rice Hybrid in Philippines and Vietnam. With our strong and mature research program, we plan to continuously launch upgraded products in the coming years. Simultaneously, we are expanding to new geographies in the Asian countries. As a result we expect this business to continue to record good growth in the coming years.

Hariyali Kisaan Bazaar has had a good topline growth in spite of shutting down eleven stores during the quarter led by fuel, trading, retail and the seeds businesses. As on date we have 281 stores as against 292 in March 2010 and 308 in December 2009. We have closed down a total of 27 outlets till date. However, if you take corresponding quarter last year to this year our turnover has gone up from Rs. 108 Crore to about Rs. 188 Crore and if you take the January-March quarter this year to the April-June quarter this year, our turnover has moved up from Rs. 158 Crore to Rs. 188 Crore. Regarding core retail operations, we had reported in the last quarter that the Company is taking several steps to strengthen this business with the help of outside experts and based on intensive customer feedback. Some of these efforts have started showing effects though the major benefits are expected only at the end of the current year. The business has seen lower operating losses during the quarter. However, one-time cost involved in strengthening and rationalizing the business has led to higher reported loss in this business. We are confident of strong and attractive potential of this business and expect a better performance in the next six to nine months.

The Chloro-Vinyl business has seen some improvements in Chlor-Alkali prices in January-March 2010. The prices however continue to be below the April-June 2009 level and also below the desirable levels. Power prices have also marginally softened vis-à-vis the same period last year. We continue to manage the revenue mix in this segment dynamically to maximize the contribution per unit of power. The business has also seen cost pressures resulting from higher prices of coal and other minerals. With this scenario of

continuous higher growth in India we expect the product prices to improve in the coming quarters, which will help in recording good performance in the business.

We are progressing on our Rajasthan lignite mine and expect to make it operational by the end of the FY'12, which will help us reduce our cost of power generation.

Fenesta has recorded good performance with improvement in the real estate situation. We have seen faster project execution as well as order booking both in institutional and the retail segment during the last two quarters. We are making efforts to further augment our product portfolio and execution capability to grow this business aggressively in the coming years. We believe that the forthcoming quarters will deliver improved results given that sugar inventories have been revalued and other businesses continue to deliver satisfactory earnings. Also we have strengthened our balance sheet thereby enabling a sharp reduction in the financial charges in the first quarter. I will now request Vikram to take you through the financial numbers for Q1 FY'11. Thank you.

Vikram Shiram: Thank you. Good evening ladies and gentlemen. As you would have noted we have presented the consolidated financials of the Company this quarter, which we will continue henceforth. I will now summarize the financial results for the quarter ended June 30, 2010. Consolidated revenues for the quarter were higher by 9% at Rs. 1020 Crore as compared to Rs. 935 Crore primarily on account of improved performance from the Farm Solutions, Bioseed, Hariyali Kisaan Bazaar and Fenesta businesses. EBITDA for the quarter stood at Rs. 47 Crore compared to Rs. 113 Crore last year. This was largely as a result of decline in the earnings in the sugar business, one-time rationalization cost in the Hariyali business and margin pressure in the Chloro-Vinyl segment. However, this was partly mitigated by better earnings from our fertilizers, Farm Solutions and Bioseed businesses. The interest costs were lower at Rs. 17.7 Crore in Q1 vis-à-vis Rs. 29.5 Crore last year. This was due to reduction of approximately Rs. 340 Crore in the overall borrowings as well as lower interest rates. Net loss for the quarter stood at ~Rs. 9 Crore.

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

The revenues from the fertilizer business for the quarter were marginally lower at Rs. 117.5 Crore as we operated on natural gas for the full quarter in the current year. This however, did not have any impact on earnings, as this was a pass through cost. The earning from the fertilizer business was higher at Rs. 11.8 Crore on account of better efficiencies and due to a one-time gain of approximately Rs. 3.5 Crore relating to freight areas for 2007-08.

Farm Solutions business had higher revenue at Rs. 197.4 Crore up at 28% compared to Rs. 153.9 Crore last year due to higher sales of SSP and the start of MOP sales in the current year. PBIT for the quarter stood flat at Rs. 7.9 Crore.

The Bioseed operations registered higher revenues for the quarter at Rs. 115.8 Crore an increase of 40.9% led by a healthy performance across all geographies, primarily driven by cotton and hybrid rice sales.

Earnings almost doubled to almost Rs. 24.2 Crore for the same reason. Here I would like to add that as this business is seasonal in nature the performance in the first quarter is not indicative of the full year results.

Revenues from the sugar business were lower at Rs. 163.9 Crore on account of lower sales volume i.e. 5.34 lakh quintals compared to 8.69 lakh quintals last year. The earnings were under pressure on account of negative margin due to declining sugar realization and higher cost. We have written down inventory and the impact of the same on earnings has been Rs. 21.9 Crore in this quarter. The price of levy sugar was revised upwards to Rs. 18.1 per kg; however, it is still significantly below the cost of production.

In Hariyali Kisaan Bazar revenues increased to Rs. 188.1 Crore from Rs. 108.7 Crore last year. This growth is primarily attributed to traction in our commodity trading, seeds and fuel verticals. The operating losses have also come down. However; the company incurred one-time cost to rationalize stores and inventories, which has resulted in lower earnings.

The Chloro-Vinyl business revenues were lower at Rs. 185.8 Crore compared to Rs. 209.8 Crore due to lower production of downstream products and higher power sales on a merchant basis. The earnings dipped to Rs. 37.7 Crore as compared to Rs. 56.3 Crore due to lower downstream product prices and power realizations.

Revenues under the other segments registered a growth of 7.9% at Rs. 83.1 Crore compared to Rs. 77 Crore last year. The healthy performance was aided by improved results in Fenesta. The Fenesta business witnessed a revenue growth of about 27% in the current quarter as compared to last year. The retail demand for the products has been strong while the initial pickup in the institutional demand is also visible.

The capital employed has also gone down across the businesses except Farms Solutions and Bioseed as we continue to conserve resources and tighten the operations. This has helped in lower borrowings.

This ends the brief on financial numbers. We would be glad to take any questions that you may have. Thank you.

Moderator: Thank you very much. Our first question is from the line of Falguni Thacker of Jetage Securities. Please go head.

Falguni Thacker: Would it be possible to give a revenue & cost breakup at HKB?

J.K. Jain: Each of these segments is still not large enough to be given separately and also since most of the costs are common; it is not possible to work out the segment wise profit so accurately, so we have been reporting consolidated numbers for that.

Falguni Thacker: Would it be possible to give a cost breakup? What would be the major cost?

J.K. Jain: The major cost will be purchase of materials, personnel expenses, and rental.

Falguni Thacker: Is it possible to give the rest if we exclude the purchase of material?

Ajay Shriram: If you take Q-o-Q, it has gone up from Rs. 108 Crore to Rs. 188 Crore and if one takes the first three months of this calendar year with the second three months of this calendar year the turnover has gone up from Rs. 158 Crore to Rs. 188 Crore, in spite of closing approximately 27 outlets. So, actually the focus is on the direction of improving footfalls and improving sales. The loss in the earlier quarter was 15.2% of turnover compared to 10.7% of turnover this time. So we are moving in the right direction. We are expecting a good monsoon and as we mentioned in the past that this time also we are revisiting the business model, the value proportion is being relooked at, we are closing some outlets which are not viable and we expect all this to give better results as times goes by.

Falguni Thacker: How much would be the one-time restructuring cost of that?

Ajay Shriram: We have closed 27 outlets. All the material has been transferred to the other stores where there could be some settlement because these are all rented properties and we prematurely got out of the rental agreement. There could be a settlement on the rented properties that will be one element of cost plus of course you know some stock etc., there is a little bit of stock loss which will happen, when we are moving out of the outlet but otherwise is not something large which is because we kept all the furniture's, fixtures etc., and materials have moved out so we incurred some cost definitely on closing down but we think that is a much better decision rather than trying to run that outlet.

Falguni Thacker: What would be the cost of putting up a 1 lakh tonne caustic soda unit?

Ajay Shriram: 1 lakh tonne is approximately about 300 tonnes a day and there are two issues; one is just putting up a Chlor Alkali plant, for instance we put up our Bharuch plant two years ago which was 240 tonnes a day and just the plant without the power plant cost us about Rs. 200 Crore plus we require a full base 50 MW power plant that cost us Rs. 180 Crore.

Ajay Shriram: This 50 MW would be sufficient for this 220 TPD?

Ajay Shriram: Well 50 MW is sufficient for 440 tonnes, which we manufacture now in our Chlor-Alkali facility in Gujarat. We already had 200 tonnes; we expanded that by 240 tonnes. So, now we have 440 tonnes as a total capacity and we have a 50 MW coal based power plant which is a very big advantage because earlier we had furnace oil based plants. So our cost of generation has dropped dramatically and therefore the return is very good on this investment.

Moderator: Thank you Ms. Thacker. Our next question is from the line of Jharna Mazumdar of Financial Technologies. Please go ahead.

Jharna Mazumdar: What kind of revenue growth are you targeting by the year end and do you see the profit in FY'11?

Ajay Shriram: We would not like to comment on projections. That has not been our policy and philosophy but as I mentioned earlier that in some of our businesses we have seen that Hariyali is looking better, our Farm, Agri, Bioseed, Fertilizers businesses are also looking good. Just for information, yesterday prices of PVC Resin have gone up by about Rs. 3 a kilo, Rs. 3000 a tonne. So I think with the economy growing at 8.5%-9%, so over the next couple of years it should be fairly positive.

Jharna Mazumdar: What is the expansion plan for Hariyali Kisaan Bazaar and how many stores do you plan to add and shut down?

Ajay Shriram: Growth of business is not necessarily growth of outlets. So our focus at the moment is that in the 282 outlets that we have; how to increase footfalls and sales. That is why in the last quarter in spite of closing some outlets we have actually increased our turnover. So our focus is in the direction of increasing sales from existing outlets. At the moment we are not looking at any new additions. But we are always looking to see if we get good location, if we find that the purchasing power is good we will look at it, it is not that we have stopped it, but we are not constantly focusing on adding new outlets as a growth strategy. Our growth strategy is how to improve this throughput of people and consequently sell from the existing outlets, which is what we are working on and we are glad to see we are getting results.

Jharna Mazumdar: What is the current debt and cash reserve?

J.K. Jain: We have a total debt of about Rs. 1,400 Crore and cash reserve is Rs. 50 to 60 Crore. We do not keep extra cash.

Jharna Mazumdar: Any plan to raise money in the near future?

Ajay Shriram: Not through equity. But as of now there is no project that we are implementing for which we need to raise debt or equity.

Moderator: Thank you Ms. Mazumdar. Our next question is from the line of Nagaraju BS of ING Vysya. Please go head.

Nagaraju BS: What are the contributions from molasses and cogen power during this period and compared to last period?

Ajay Shriram: During this quarter there has been no molasses or co-gen because the sugar factories stopped before this quarter.

Nagaraju BS: How are the surplus power capacities as of now?

Ajay Shriram: The exportable power capacity in our unit today is 50 Megawatts which in the season time and for some time after season because we store bagasse, so for in the season we go full fledge at 50 and after season it we have the bagasse,

Nagaraju BS: In Q2 and Q3 will you see the contributions from this segment?

Ajay Shriram: No this segment will start basically in Q3, because the sugar season will start sometime around October or November and only when the sugar season starts we will start getting the bagasse and molasses. So we expect by October and November we should start getting this.

Nagaraju BS: What is the realization from levy sugar as of now?

Ajay Shriram: Levy sugar realization now is about Rs. 18.1 per Kg or Rs. 18,000 per tonne.

Nagaraju BS: That is an increase of about Rs.5?

Ajay Shriram: It is Rs. 4.5 per kg.

Moderator: Thank you. Our next question is from the line of Rakesh Raveendran of CRISIL. Please go ahead.

R Raveendran: How do you see your profitability going ahead in Chlor-Alkali business?

Ajay Shriram: Our approach is that with a GDP growth of 8.5% - 9%, (though there are aberrations in commodity prices which happen all the time), we do expect growth, but I think inherently our focus has been on being cost competitive and continuously reduce our cost of production. We want to focus on it and we believe this is a good business, which will give us good and handsome returns. If you see even now in our Bharuch unit after converting from furnace oil to coal, our margins have gone up substantially, but basically it is a cost reduction approach. Similarly at Kota we are working on this lignite mine in Rajasthan. When that starts in the early 2012 or I think around April-May of 2012, at that time we expect cost of power generation to come down. So it will give us better margins from where we are today and these are basic building blocks for any economy as they are required. We think it is a good business to be in and it will grow.

R Raveendran: Do you have your own captive sources for salt or do you purchase it?

Ajay Shriram: No, we purchase salt from Gujarat as well as from Rajasthan.

Moderator: Thank you Mr. Raveendran. Our next question is from the line of Sunny Agrawal of Aditya Birla Money. Please go ahead.

Sunny Agrawal: My question pertains to Hariyali Kisaan Bazaar. What are the various parameters that we look at for opening our store in Hariyali Kisaan Bazaar? Is there any target population like 1 lakh or 2 lakh per tonne or any other data, which we are looking at?

Ajay Shriram: There are six or eight different parameters, which are considered. It is the income level; it is the population, the agriculture, the catchment area and density of people, roads network, electricity availability network, all these parameters ultimately, which would determine what is the income levels and the surplus money available in a particular area, how far they are from tier IV towns and how do we look at getting people accessing from there also. We look at the location whether it is a state highway or a national highway. There are a large number of parameters, which ultimately determine and we go through a historical data to find out the growth rate etc. over the last eight to ten years and what is the growth rate in the state, what is the development in the state, so all these parameters are looked at.

Sunny Agrawal: So how much potential do you see going down the line in the next three four years, how many stores can we open? What is the potential target?

Ajay Shriram: It is difficult to give a figure now because as we have said that we have been consolidating over the last six to seven months and that has led us to a better value proposition and our focus is sharper. We have shut some stores, which were making losses, but we will grow, that is definite. At the moment our focus is on growth of the existing outlets but I think it is a little early to say but may be six to eight months down the road, we will again start revisiting aggressively what are the new outlet locations, which are suitable and then based on the business call and at that time increase the stores if required. I just want to mention on Hariyali, we have centers and stores, which are our pieces of land, so we have a land bank of 20 plus pieces with us in any case, we are going to start expanding there first.

Sunny Agrawal: What is the current pricing of molasses?

Ajay Shriram: Rs. 160 - Rs.170 a quintal.

Moderator: Thank you Mr. Agrawal. Our next question is from the line of Falguni Thacker of Jetage Securities. Please go ahead.

Rohan Gupta: Sir, just wanted to understand about your Agri input business, but under the Farm Solution head, here you trade almost all the complex fertilizers, DAP, MOP, and SSP, and also some other micronutrients etc., Can you give us a breakup of this Rs. 197 Crore which you have generated this quarter between the fertilizer trading and other crops inputs?

Vikram Shriram: I would say probably the non-bulk fertilizers will constitute, at least in this quarter about 60% of the total revenues and they can come from agrochemicals, micronutrients, some specialty fertilizers, hybrid seeds and open variety seeds.

Rohan Gupta: So roughly Rs. 70 -80 Crore is from agrochemical?

Ajay Shriram: It is the combination of agrochemical, hybrid seeds, open variety seeds, soluble fertilizers and micronutrients.

Rohan Gupta: Do we get similar margins in both of these businesses, fertilizers & micronutrients and pesticides?

Ajay Shriram: I think the margins vary quite a bit, for example hybrid seeds are our own products, so obviously the margins are much better. Agrochemical we do it based on our formulation units, so we have a certain range of margins. As far as bulk fertilizers in this quarter is concerned, we did not trade in DAP , which will come into the next quarter, but we did in SSP and SSP margins are primarily fixed by government pricing. So it is a mixed bag, but generally the bulk fertilizers margins are lower and the margins are better in the value added products.

Rohan Gupta: In bulk fertilizer our margins will be about 2% to 3% because it is a trading business or will it be more than that?

Ajay Shriram: It will be about that much.

Rohan Gupta: Can you give more detail about the Bioseed business?

Rajiv Sinha: We are in the research business, we are in production of seeds, processing of seeds and marketing of seeds. So we, in fact, cover the entire chain of value across the hybrid seed business and we are in both field crops as well as vegetable crops. And in both the crops through our research effort over the last several years, we have created proprietary hybrids which stand up to the best available in the market. For example, in the field crops we are very strong in BT cotton, in corn, in bajra and hybrid paddy, and similarly we cover a host of vegetables including okra, various kinds of gourds and tomato etc., our largest company in this business is in India, which is Shriram Bioseed is in Hyderabad, where we also have the research facility for all our international operations and we have our own processing facility in Hyderabad. In addition, we have research locations all over India. I do not have the exact number, but close to a dozen-research facility.

Rohan Gupta: Why is there such a huge variance in margins in this business compared to last year and this quarter?

Ajay Shriram: I think, it is basically because we are expanding our product portfolio. Hybrid cotton has been a major growth driver in this quarter compared to the last year and we expect the cotton growth to continue in the time to come, so that has had a big impact on the margins.

Rohan Gupta: Can you give some indication where the same store revenue changes have happened on Q-o-Q basis?

Ajay Shriram: It is Rs. 158 Crore to Rs. 188 Crore and number of outlets has come down.

Rohan Gupta: How many stores were running in Q4 FY'10 at that time?

Ajay Shriram: We had 292 stores running as of March 31, 2010, and now we are at 281.

Rohan Gupta: So, we can simply divide from this number to get the same store revenues or will there be some changes in the structure?

Ajay Shriram: There is no basic change. Basically the revenues per outlet has gone up, that is our target and it is difficult to give one because the stores are not closed on one particular date, it is a staggered process, but the good thing is that that the revenues are going up.

Rohan Gupta: What kind of minimal revenues do you target as a company to achieve the breakeven level for a particular store?

Ajay Shriram: I do not think, we really look at that way, because it depends on the size, location and the purchasing power in an area etc. So we do not say that you have to have so much of turnover. Minimum profit definitely, ultimately over a period of time you have to turn positive, but we do not really have a target of minimum turnover of so much.

Rohan Gupta: Any further plans to close down few more locations in the current quarter?

Ajay Shriram: You know this is a dynamic situation we are always studying this and our people are visiting and touring around, in the next quarter may be another four to five may close down. But I am not saying definitively that it will, but this is as I said a dynamic situation, we are continuously looking at what is the performance and then the management will take a decision.

Rohan Gupta: How has the realization been in the Chlor-Alkali business, compared to Q4, like this quarter your realization was Rs. 17,187, what was it in Q4?

JK Jain: Q1 realization vis-à-vis Q4 realizations are better for Chlor-Alkali. Q4 for Chlor-Alkali was Rs. 13,900. For the current quarter you have the number with you it was Rs. 17,200.

Rohan Gupta: Overall, there has been almost 30% increase in ECU realization Q-o-Q?

JK Jain: It would not be 30%, I think it is about 20% if I see, it was only 22%, and plastics have gone up from Rs. 50,000 to Rs. 52,500.

Rohan Gupta: What was the EBIT from Chlor-Alkali business in Q4FY10?

Ajay Shriram: In Chloro-Vinyl we had segment result of Rs.32 Crore in Q4.

Rohan Gupta: Which is against nil for the current quarter?

Ajay Shriram: No, for the current quarter it is Rs. 37.8 Crore. Do not look at Chlor-Alkali, you look at Chloro-Vinyl as this is the segment that we report, so look at the combined profit of Chloro-Vinyl, which was Rs. 31.8 Crore in Q4 and Rs. 37.7 Crore in this quarter.

Rohan Gupta: For a better understanding if I look at slide number 12, the breakup which you gave about your Chlor-Alkali business, shows that the PBIT for the current quarter is almost nil?

Ajay Shriram: That is what we are saying, we have a business where we swing the product mix depending upon the prices of various products that is why it could be advisable not to look at individual sub segment of Chloro-Vinyl and look at the combined Chloro-Vinyl segment that is a better representation.

Rohan Gupta: So, this Rs. 38 Crore in current quarter, how much it was in the previous quarter?

Ajay Shriram: Rs. 31.8 Crore.

Rohan Gupta: So, it has improved by only some Rs. 6-7 Crore?

Ajay Shriram: Vis-à-vis it has improved about 15% or so.

Moderator: Thank you Mr. Gupta. Next question is from the line of Kumaresh Ramakrishnan of Deutsche Bank Asset Management. Please go ahead.

K Ramakrishnan: What is the kind of sugar inventory that you hold as on date?

Ajay Shriram: We are carrying sugar of about 5.5 lakhs quintal from June 30 and besides that, we have levy sugar of 2.5 lakh quintals.

K Ramakrishnan: What quantum do you expect to sell in this current quarter out of this 5.5 lakh and this 2.5? How much do you see the inventory movement in the current quarter?

Ajay Shriram: It will depend on the release but as per our expectation we should sell the entire retail sugar before the start of next season which is October and November.

K Ramakrishnan: Any indication on what could be the average selling price in this current quarter?

Ajay Shriram: That is a million dollar question.

K Ramakrishnan: No, what was the average price let us say for July?

Ajay Shriram: For July the prices have moved between Rs. 26 to Rs. 27.

K Ramakrishnan: What do you think could be the opening inventory for the next season for sugar at the national level?

Ajit Shriram: The inventory level on all India basis would be about 5.9 million tonnes. This will include all the imports of raw and white etc. So we are looking at a level of 6 million tonnes on a national basis and rough production of 25.5 million tonnes next year. So, we will have a total inventory of about 31-31.5 million tonnes next year, which is relatively comfortable position.

K Ramakrishnan: The consumption would be about 23- 24 million tonnes?

Ajit Shriram: Yes you are right.

K Ramakrishnan: Which means you would roughly be closing at about 7 million tonnes.

Moderator: Thank you. Our next question is from the line of Rakesh Raveendran of CRISIL. Please go ahead.

R Raveendran: Currently the international DAP prices are amongst the lowest as of now and that is slowly inching back. So, I was just wondering isn't this the time to be buying internationally?

Rajiv Sinha: When I said we have not traded because the shipment that we had booked had not arrived till June end. So the material is in transit, so we have not traded it in the market that is why we said it has not been traded in the first.

Moderator: Thank you. Our next question is from the line of Deepak Khatwani of Aadhar Company. Please go ahead.

Deepak Khatwani: If we look at the results for this quarter, the Farm and Agri business has done pretty well in comparison to other businesses of company. I wanted to know if there is a possible demerger of this Farm and Agri business from the other businesses.

Rajiv Sinha: No, we have not looked at that. We are integral part of DSCL and that is how we plan it right now.

Moderator: Thank you. Next question is from the line of Sandeep Pandhare of Kotak PMS. Please go ahead.

Sandeep Pandhare: First question about Bioseeds business. Will it be possible for you to throw some light on the revenue mix of the Bioseed like say across the crops, cotton, rice etc.?

Rajiv Sinha: I can give you a broad idea that at least in this quarter I would say nearly 60% to 70% revenue would have come from cotton and the balance from Corn, bajra, paddy, and cotton mills. Vegetables will really pick up from July.

Sandeep Pandhare: In case of Bioseed, which is the focus season, like are the majority of sales done in Kharif or you also do in Rabi?

Rajiv Sinha: You are right, I think particularly for cotton, Kharif is the big season, then we have some sale at the tail end of the financial year, which happens in February and March for cotton. For corn, there is still some significant quantity, which happens in Rabi season also, but for bajra, paddy and cotton it is nearly the Kharif season, but for vegetable it is the rest of the year, so this is the situation as far as India is concerned. The seasons are very different in our business in Vietnam and Philippines. There we still have a strong season say January to March period.

Sandeep Pandhare: What kind of timeline are you looking at in terms of operating level breakeven in Hariyali Kisaan?

Ajay Shriram: Well it is difficult to say because this is something, which as we all know what retail is like, but the positive direction we are getting and the sort of responses that we are getting to our consolidation and our focused approach now, we think that in two or three years' time we should be able to breakeven at least.

Sandeep Pandhare: What is the outlook on corn right now because there have been reports that the acreages have gone down this year?

Rajiv Sinha: You are right; corn acreages have suffered on account of growth in cotton and pulses. So corn has taken a hit in the Kharif season all over the place. We have also not been able to do as much as we wanted to do in corn in the Kharif season.

Sandeep Pandhare: So roughly what kind of reduction has been there in corn?

Rajiv Sinha: It is varying because this was the strong season for southern states like Andhra and Karnataka and western areas like Maharashtra. It is difficult to say because the reports are as much as 20% to 25% reduction in the corn area, but I would say these figures have to be verified, because the season is just getting over now.

Sandeep Pandhare: So at your end what kind of reduction in sales did you witness?

Rajiv Sinha: Our sales compared to last year same quarter would be similar, but we were looking for growths, which we have not been able to do.

Sandeep Pandhare: So the cotton has been the star?

Rajiv Sinha: The main driver yes, but now we have improved even in Paddy, we have improved in bajra and of course in our business in Vietnam particularly we have been able to improve.

Sandeep Pandhare: So fairly diversified?

Ajay Shriram: We are diversified according to crops, according to geographies and according to seasons. That gives us a fair amount of predictability.

Moderator: Thank you. The next question is from the line of Kumaresh Ramakrishnan of DB Asset Management. Please go ahead.

K Ramakrishnan: This is regarding the plastics business, now I understand that you have the swing capability between PVC and power, now if I just look at the PBT for the quarter actually it was negative Rs. 4.8 crore. Now was this a strategic move to be selling this amount of PVC, was there a possibility that you could probably cut this down further and shift to power?

Ajay Shriram: I think it is minus. The reason for that is because we have reduced PVC production quite substantially, because we were selling power, similarly Chlor-Alkali productions also came down, but then there are fixed costs, which have to be maintained, so we actually use this time to do a lot of maintenance work at the plant, which we normally do not get to shut down. So we took a closure for about 15 days, because we were selling power and that gave a better realization to the group in totality in a holistic way that was a more profitable approach So it is actually a conscious decision to reduce production of PVC and caustic soda to sell power.

Moderator: Thank you. The next question is from the line of Nagaraju of ING Vysya. Please go ahead.

Nagaraju BS: Is the swing capability only available at Kota unit or do both the units have the capability for swing?

Ajay Shriram: No, it is only at Kota where it is a swing between caustic soda, chlorine, PVC, and power sale.

Nagaraju BS: Is there any restriction up to what percent you can go for swing or you can even go up to 100% for power sales?

Ajay Shriram: No, in terms of power selling the maximum we can sell power is about 62 megawatts.

Nagaraju BS: This is the capacity allocated for Chloro-Vinyl business otherwise?

Ajay Shriram: The Chloro-Vinyl would be a little more than this. It is totally about 80 to 85 megawatts, but the maximum we can do on an averaging basis is 62 megawatts every month.

Nagaraju BS: You are able to mitigate losses at Kota unit, whereas in Bharuch unit the prices are low and you still have to suffer loss either less or cut down the production?

Ajay Shriram: Well fortunately in Chlor-Alkali we never had to cut production because we do always get a contribution, because we never get on a total cost basis the profit, but you do that in contribution. But in Gujarat also we started the issue of selling power and we are still pursuing that some of the policies make it quite expensive to sell power. So unless and until we get clarity on that we are not looking at selling right now though we are working. We have applied to the state government for permission to sell power, but as of now we are not.

Moderator: Thank you. The last question is from the line of Sandeep Pandhare of Kotak PMS. Please go ahead.

Sandeep Pandhare: Is it possible to share the selling price of power per unit currently?

Ajay Shriram: The selling price was Rs. 6.3 per unit compared to Rs. 6.8 per unit in Q4FY10.

Moderator: Ladies and gentlemen that was the last question and now I hand the conference over to the management to add their closing comments. Please go ahead.

Ajay Shriram: Thank you very much. On behalf of the company I thank all of you in taking interest in participating in this conference call for our company. We do believe that being a conglomerate we have a lot of strength and as many queries thus come up. The swing capability is a tremendous advantage, where we are optimizing our bottom-line in our operations and that is something which we are very aware of and the management at the unit level is very alert on getting the best opportunities to decide whether to sell power or to make product that is something they are moving on. On Hariyali Kisaan Bazaar, our consolidation move is giving results and we are bullish on getting a much better performance down the line and this focus is on very sharply and very strongly for the next couple of years. Regarding our sugar policy and our sugar business, we have clarified various questions asked. I just want to add that the good thing is that today the government is talking about decontrol of the sugar industry. Sugar is really one of the most controlled industries in the country today and coming to a decontrol scenario, where we will have some freedom to either get cane from a larger area, on cane pricing, we do not know what the government will do, but maybe there is going to be a minimum benchmark, but in terms of selling sugars, the stocking of sugar, and movement of sugar, it is something, which is going to be decontrolled, which is a very positive direction and we are looking forward to that because we think our strengths and our capabilities will be much better utilized in an open scenario rather than such a controlled scenario as we are operating in today. I once again thank you very much for participating in today's conference call. Good evening and good night.

Moderator: Thank you gentlemen and management team and Mr. Selarka. Ladies and gentlemen on behalf of DCM Shriram Consolidated Limited that concludes this conference call. Thank you for joining us in the Chorus Call conferencing service and you may now disconnect your lines. Thank you.

This is a transcription and may contain transcription errors. The Company or the sender takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.