DCM Shriram Consolidated Limited

Q2 & H1 FY2010 – Earnings Conference Call Transcript
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Moderator: Ladies and gentlemen, good evening and welcome to the DCM Shriram Consolidated Ltd Q2 and H1 FY10 earnings conference call. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Ishan Selarka of Citigate Dewe Rogerson. Thank you, and over to you, sir.

Ishan Selarka: Thank you Melissa. Good evening everyone. Welcome and thank you for joining us on DSCL Q2 and H1 FY10 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 Shriram, Director – Sugar; and Mr. J. K. Jain, CFO of the Company. You may want to keep in mind that some of the statements being made on this call may be forward looking and a note to that effect was included in the release sent out to you earlier. 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 Company's operation in the quarter under review. Over to you, sir.

Ajay Shriram: Thank you Ishan. Good afternoon ladies and gentlemen and a very warm welcome to DSCL Q2 and H1 FY2010 conference call. It is a pleasure to report another quarter of satisfactory operating and financial performance. At an overall level, the business environment has improved, though inadequate rainfall is a matter of concern for some of our businesses. The financial markets have also seen stability which is reflected in lower financial costs and improved availability of funds. After completing all our expansion projects across several businesses, we have been concentrating on stabilizing the operations, improving efficiencies and strengthening our balance-sheet. This has started showing good results with improvement in operating costs and significant reduction in overall leverage and consequently the financial charges.

During the quarter, some of our plants at Kota, which were the fertilizer, cement, and power plants had scheduled maintenance turnarounds which have meant lower production and profit in these businesses. Out of these, the loss in the Fertilizer plant will be made up in the balance part of this financial year.

The Government in India notified the retention prices of Urea under the NPS III with effect from October 2006, resulting in the Company accruing additional revenue of Rs. 11.3 Crore during the quarter. The Urea plant has been operating at 100% on Natural Gas with effect from May 2009 which has meant improved cost competitiveness of our Urea business, reduction in Fertilizer subsidy accruals to the tune of about Rs. 210 Crore in H1 FY2010 compared to the same period last year and lower working capital requirements.

Sugar as you all know has seen margin improvement consequent to improvement in prices. Lower sales quantity and lower by-product prices have restricted the rise in overall profits from the business. The cane availability continues to be tight; and uncertainty in regulatory framework regarding cane pricing is making the matter more difficult. We have a very proactive cane development philosophy and are working towards bringing more area under cane planting in the coming sowing season.

The Chloro-Vinyl business continues to be adversely affected with sharply lower PVC and Chlor-Alkali prices. PVC prices have recorded some improvement over Q1 FY2010 but still continue to be 10% to 12% lower than over the same period last year. The Chlor-Alkali prices in Q2 FY2010 are almost 30% lower than the same period last year and about 10% lower than Q1 FY2010. Reduction in these prices has meant adverse impact of approximately Rs. 58 Crore in Q2 and about Rs. 113 Crore in H1 on the Company. This impact has been mitigated through cost savings by shift from furnace oil to coal based power and the capacity expansion in Bharuch and by altering the product mix at Kota involving sale of more power by cutting down production of PVC and Chlor-Alkali.

Fenesta windows business is receiving a good response from retail as well as the project segments. We have built up strong sale installation and service network to cater to the growth in the retail segments. Fenesta is present in 42 cities today and is further increasing its presence. The brand is also being strengthened through aggressive promotional and marketing activities. The project segment has shown revival as is reflected in higher order bookings. The execution activities have also picked up. The fresh order booking in H1 FY2010 is about 1.4 Lakh windows which is almost 45% higher than the same period last year. The business is overall PBT positive now.

Hariyali has shown a slow growth vis-à-vis our expectation, part of which is due to the effect of inadequate rains in some key markets. We are taking steps to strengthen all aspects of business including our offerings, supply chain, cost structure, promotion, etc. to increase the footfalls, revenue, and margins. These efforts have started showing results and should mean better financial performance in the medium term.

To close, we believe we have faced the challenges of the Chloro-Vinyl segment well. Our efforts for consolidating the various expansions and bringing up new businesses have started showing results. With a stronger balance-sheet, we are preparing ourselves for continuing growth in the coming years.

Now, I will request Vikram to take you through the financial numbers for Q2 and H1 FY2010. Thank you.

Vikram Shriram: Thank you. Good evening, ladies and gentlemen. I would now like to summarize the financial results for the quarter and half year ended September 30th, 2009.

Our standalone EBITDA for the H1 FY2010 is Rs. 181 Crore versus Rs. 144 Crore last year, registering a growth of approximately 26%. The EBITDA for Q2 FY2010 at Rs. 80 Crore has risen by approximately 6% over last year. We had scheduled maintenance turnarounds of several plants which have reduced PBIT by approximately Rs. 26 Crore during the quarter. Out of this, approximately Rs. 9 Crore will be made up in the balance of the financial year.

The interest cost at Rs. 22 Crore in Q2 FY2010 has recorded sharp reduction vis-à-vis Rs. 34 Crore last year and Rs. 29 Crore in Q1 FY2010. This has happened due to approximately Rs. 500 Crore reduction in overall borrowing and lower interest rates. We expect this trend to continue in the balance year.

Depreciation is higher over the same period compared to last year as we had commissioned our power plants in Bharuch and at two of our sugar factories in the second half of last year. The PAT for the H1 FY2010 at Rs. 35 Crore is significantly better vis-à-vis Rs. 12 Crore in the same period last year. The PAT for Q2 FY2010 has also demonstrated the same trend.

The net sales for the quarter at Rs. 826 Crore are about 14% lower vis-à-vis the same period last year. The net sales in H1 FY2010 are almost at last year's level. The reduction in sales is mainly due to the following factors which have no adverse effect on the profits of the Company. A) The reduction in Fertilizer turnover of approximately Rs. 210 Crore in the first half of 2010 due to reduction and retention price, consequent to change in feedstock to natural gas, B) more sale of power by reducing production of PVC and Chlor-Alkali in view of the lower prices of these products and C) the scheduled maintenance turnaround of the Fertilizer and cement plants has led to the lower turnover.

Let me now take you through some business wise highlights.

Sugar has registered good growth in revenues which just went up to Rs. 389 Crore in H1 FY2010 versus Rs. 277 Crore last year, a growth of approximately 40%. The segment PBIT also moved up from Rs. 2.7 Crore to Rs. 18.6 Crore in the same period. This reflects the improvement in margins from the very low level last year toward a slightly more healthy level now. However, the lower production and lower by-product prices have restricted the level of improvement in profit.

Agri-Inputs business has been able to maintain the first half segment PBIT at last year's level of approximately Rs. 11 Crore. Its revenue growth was restricted to approximately Rs. 11 Crore due to adverse effect of drought. Also, changes in the basis of determination of SSP cost with use of imported rock by the Government had a one time adverse impact on the business during the H1 FY2010.

The Chloro-Vinyl segment recorded a PBIT of Rs. 45 Crore during the quarter compared to Rs. 37 Crore last year. The increase in profit in spite of sharp drop in Chlor-Alkali and PVC prices could be possible due to A) savings in power cost at Bharuch Chlor-Alkali complex through coal based power instead of furnace oil based power. This has meant saving of approximately Rs. 7,000 per ton compared to last year. B) Higher production due to capacity expansion at Bharuch helped the profit and C) sale of power from Kota by lowering the production of PVC and Chlor-Alkali.

Fenesta windows business classified under 'Others' segments registered good growth as mentioned earlier.

Going forward, the Company will continue to focus on improving its operating performance, having completed all expansions and maintenance turnarounds. The swing capabilities in the Chloro-Vinyl business at Kota has provided a lot of stability to our earnings profile. Growth in Fenesta business and strengthening our operating efficiencies in Hariyali will further improve the earnings. The efforts to reduce the borrowings are also continuing, which will help in further reducing the interest costs. We are confident of continuing to record good performance in the coming quarters.

We will now be glad to take any questions that you may have. Thank you.

Moderator: Thank you sir. Ladies and gentlemen we will now begin with the question-and-answer session. The first question is from the line of Ms. Kavita Pradeep Kumar from Standard Chartered. Please go ahead.

Kavita Pradeep Kumar: Could you throw some light in regards to the fixed cost in HKB, because, generally the survey suggests that this kind of business has been making losses. So how do you see the growth and what is the plan of action going forward?

Ajay Shriram: Now as you recollect, we started the business with the objective of providing agriculture inputs products and more importantly advisory services to the farmers. But simultaneously, we have also added on other products which are required not only for the farmer but for the household and for the non-farming sector, which includes FMCG products, staple foods, household goods, apparel, etc. and we are finding that the customer response to this is very positive. This business is growing. I think what's happened is that we have rapidly expanded and invested capital in this business over the last two years. I think we got affected during the last couple of months because of monsoon. In March 2007, we had 70 outlets while in March 2009, we had about 305 outlets. So I think this growth is what has taken up capital and that is also having an impact. Simultaneously, as we mentioned before, we are working on trying to streamline and improve our efficiencies in terms of the supply chain side, in terms of our offerings to the customers, in terms of our products range and in terms of the financing of options and possibilities for the customers. We had something like 50 vehicles which went around promoting Hariyali products, services, and the range in villages where our catchment areas are. We also have a TV campaign and we are getting a good response. We have seen increase in our sales in the last one month and with all these efforts going on, we do feel that this business is a good business to grow and we are providing a good offering to our rural consumer who today doesn't have the option except going through the smaller shops. As mentioned, we are not looking at expanding immediately. We want to wait for another six months and then we will take a view as to how we want to grow and at what pace, because we think that that 300-odd outlets is not small. We are present today in eight states and our catchment area is fairly large. So, we are working on improving the business and the efficiencies of the business and the offerings to the consumer, and we are sure it will happen.

Kavita Pradeep Kumar: Can you give me the details of the fixed cost of this kind of business and when do you think we would achieve breakeven?

Vikram Shriram: See, at a business level, we haven't shared those details. The results are there with you. We will come back to the investor community with the details in due course; In terms of breakeven I think one and a half to three years I would say, depending on the location.

Kavita Pradeep Kumar: You can't give me an exact figure with regards to that.

Ajay Shriram: No, we don't have it here.

Moderator: Thank you Ms. Kumar. The next question is from the line of Mr. Biju Samuel from HDFC Securities. Please go ahead.

Biju Samuel: You mentioned that there was a shutdown in your fertilizer, cement and power plant and that you would be covering your fertilizer loss in the second half of this year, right?

Ajay Shriram: Correct.

Biju Samuel: So what is the expectation from the cement and the power plants?

Ajay Shriram: See, we take the shutdown on a plant basis. In fact, our fertilizer plant has a shutdown after two and a half years and we have the capabilities despite of the shutdown in the balance period because of the retention price scheme and the policy of the Government. We are allowed to produce only 3.79 Lakh tons in our case. So in the balance period, we can come back to 3.79 Lakh tons in spite of the shutdown. That is what we said that in the fertilizer business we can make up for the lost volumes. But for other businesses, whether its cement or power, a plant shutdown is a normal business practice which has to be done. In cement, one has it annually because it is actually budgeted in on an annual basis and we do that because it is inevitable.

Similarly in the power plant where besides our own requirements, we also have the boiler inspector coming for approvals and things like that, which are statutory. So for that, we have those shutdowns also. Now in cement and power, there is no limitation on our production so theoretically, yes, every shutdown we lose, but then I think for the long-term sustainability and stable operation, the scheduled shutdowns are important because they actually give back the light to the plant and to the equipments. So it's a planned shutdown which is happened.

Biju Samuel: Can we say that in the next half, we would be able to cover up the loss for cement and power as well?

Ajay Shriram: You see, I'll put it this way. We don't consider it a loss in the sense because it's planned and frankly speaking, if you lost 15 days, you lost 15 days. We can't come back, because in the balance period we are running at a peak capacity anyway. But this is a planned shutdown that one has to do from a maintenance point of view and if you don't do that, we feel that you might be able to run the plant, but then we are seeing the possibilities of even breakdowns or some unscheduled stoppage which ultimately can be more expensive. So this plant shutdown is important. All plants do it, not only us. So we did that.

Biju Samuel: What benefits are we seeing in changing the feedstock to Natural Gas?

Ajay Shriram: There are two things which are coming on this. One is that the capital tied up in the business has come down. So as you are aware that all input costs are reimbursed to us because of the subsidies the government provides to the farmers through the industry. Industries are conduit to provide that subsidy. So our capital invested in this business comes down because the price of gas is lower than the price of Naphtha. Naphtha is running at about USD 20 and on equivalent basis the gas is about USD 7. So with that, our working capital requirements come down which means that we are saving in interest straightaway. Secondly, by getting full quantity of gas since May, our efficiencies are marginally better. So that has a beneficial effect on the operating efficiencies of the fertilizer business.

Biju Samuel: Sequentially, there is a fall in the sales if you see the sales proportion but, if you see proportionately, power and fuel expenses have not fallen that much.

Ajay Shriram: I think this is where our Kota complex has the strength of an integrated plant with the swing capability where we can either use the power to manufacture Chlor-Alkali or manufacture PVC or we can sell the power. So what we have done now and as Vikram and I had both mentioned, we actually have reduced production of PVC and Caustic Soda and we are selling the power because we get a better net back by selling power through the grid rather than manufacturing PVC or Caustic Soda. So, frankly, we feel much better with optimal utilization of our assets and a better return on the capital assets which are available in the group by selling power rather than manufacturing our own products, in today's situation. The issue of cost saving at Bharuch is also helped us in terms of improving our bottom line and reducing our costs.

Biju Samuel: Just to confirm, you said that the breakeven of each outlet in the Hariyali business typically takes about one and a half to three years, right?

Ajay Shriram: Yes.

Moderator: Thank you Mr. Samuel. The next question is from the line of Prateek Tholiya from KJMC Capital Markets. Please go ahead.

Prateek Tholiya: I wanted to know a little bit about the sugar sector that, on 29th October, you had the FRP launch and the ministry had said that it is banned in all states. And two days back, Mr. Sharad Pawar had said that it's just an indicative price and the states are free to decide their prices i.e. 80% will be paid by the mill owners and 20% will be paid by the states. So can you give me your opinion on what's happening in the entire sector and how is it affecting your business if it is?

Ajit Shriram: Basically, the FRP has been announced in the end of October and the way we understand it is that FRP is the minimum price paid or to be paid throughout India, that's the Fair Remunerative Price. However, if any Company wants to pay a higher price to attract cane, they can do so. So the way we see it is that in any case this year there a shortage of cane and to incentivize the farmers to plant more cane for the following year, the cane price will be higher than FRP and also perhaps the SAP. So the Company will be paying the entire amount to the farmer.

Prateek Tholiya: So whatever is the higher, the SAP amount is what you will be paying the farmers?

Ajit Shriram: Absolutely.

Moderator: Thank you Mr. Tholiya. The next question is from the line of Shrinath V. from Probe Equity. Please go ahead.

Shrinath V.: Out of the 300-odd-plus Hariyali stores, how many of them would be at operating profit at a store level?

Ajay Shriram: It's running at about 24%-25%. As I mentioned, that we expanded rapidly from 2007 to 2009 i.e. from 70 outlets to about 305 outlets. So, it's a growing business. So that's why the number is still a little low.

Shrinath V.: How do you see it panning out in the next few years?

Ajay Shriram: We definitely see the business picking up. As I mentioned, we have taken a lot of initiatives to attract more customers, provide better offerings, make the range more conducive and we have now gone region wise providing what is required in each area. But this sort of business requires continuous fine-tuning and requires a lot of market feedbacks. We have got agencies which are continuously working at getting the feedbacks from the rural customers on their needs, fashions, tastes and requirements. So all that is getting factored into our supply chain and planning process. So we are expecting the business to grow well in the next couple of years.

Moderator: Thank you. The next question is from the line of Jai Prakash from ULJK Securities. Please go ahead.

Jai Prakash: Recently, there was a media report that the UP Government has banned import of raw sugar. So what would be the impact of this on your business as well as the sugar industry in UP?

Ajay Shriram: In our case, whatever we booked for import, though not a large quantity is already in our godowns. So we are not going to be affected by this. But the feeling is also that down the line this is something which is happening because of the sugarcane price turmoil. And the expectation in the industry is that within the next couple of weeks, a solution will have to be found to the cane price which is acceptable to the industry as well as to the farmers, and once that happens, we expect that the full flow of material in and out of UP will resume once again.

Jai Prakash: But does it mean that the UP millers won't be able to enter into an import contract for raw sugar?

Ajay Shriram: I think they are importing. I think it's the transport size which is something which has to be arranged for, but this thing is an agitation which is there. So right now, they have put a ban on this just to mellow down the mood in UP. But frankly, once these sugar factories start, we expect this to open up because there are many mills in UP which have committed imports and they have to bring it to their factories. It's just a matter of time.

Moderator: Thank you Mr. Prakash. The next question is from the line Aashish Upganlawar from Sharekhan. Please go ahead.

Aashish Upganlawar: Have we started crushing at all our factories and what is the scene as far as entire UP is concerned? What is the cane cost that we are likely to pay this year? Can you give us some sense on that?

Ajay Shriram: Well, we are not crushing yet. That is something which the industry is discussing and we hope that in the next 10 days we will start crushing. The late rain has affected the cane; so one pushes the crushing date back a little bit such that the sucrose content of the cane goes up leading to higher recoveries. So we are not starting crushing yet.

On this issue of cane price, the State Government has announced the price, but as you must be aware that there has been some agitation by some farmers in UP i.e. in Meerut yesterday and Bareilly last week. So the sugar industry is in close touch with the state government saying that there has to be a linkage between the sugar price and the sugarcane price and that policy should be adopted. So you can see how you want to tackle this issue and take it up. Frankly, the government has their own factories also; so they will have to take a decision on their factories simultaneously. So industry will talk to the government and expect this sugar price issue to be sorted out in the next few weeks.

Aashish Upganlawar: But in any case, the cane price that one would expect should be somewhere around Rs. 180-185 per quintal. Is it a fair assumption as of now?

Ajay Shriram: I do not know if we should take a ballpark of Rs. 170-180 as yet because there is this issue of FRP. Plus there is SAP and there is some confusion on this cane price issue right now. But you are right; we do not feel it will be less than Rs. 170-175 anyway.

Aashish Upganlawar: What are you fetching as realizations on the sugar front per kg or may be per quintal as of now?

J.K. Jain: The market price is about between Rs. 32 and Rs. 35, but then most of the mills have very little quantity to sell and that is the reason why price is high.

Aashish Upganlawar: Are you talking about ex-mill?

Ajay Shriram: Yes.

Moderator: Thank you Mr. Upganlawar. The next question is from the line of Angad Singh from Ethos Advisors, please go ahead.

Angad Singh: Seeing a particular increase in the revenue in HKB from last quarter, I want to know specifically from which particular verticals has this growth happened i.e. in Agri products and services or is it in the other services that have been offered like the departmental stores of financial services?

Rajiv Sinha: I think the Agri commodities have not increased too much if you take half to half year primarily because this has been an extraordinary year with respect to the monsoon problems; but we have seen growth in our other categories like food and grocery, fuel and of course we are also doing a certain amount of trading which is related to our Hariyali business and that has also grown significantly.

Angad Singh: There has not been much expansion since last quarter in HKB. So I am guessing the Company has been consolidating but yet the losses have also increased, is there any such particular reason what costs have gone up?

Rajiv Sinha: I think as our Chairman explained earlier that we have expanded very rapidly and added nearly 130-140 stores in a very short period. Now what has happened is that the cost of all those outlets is now building up in our system and as was explained earlier it could take anywhere from one and a half to three years for an outlet to breakeven. So, as of now we have a much higher cost and with time all these outlets will start coming into a positive zone. But somehow, the growth in the agriculture category has been below expectations because of monsoon factor and that is the reason for the cost build up and margin pressure.

Angad Singh: Actually since last quarter we have only added six outlets, so I think the capital cost has not increased much since last quarter.

Rajiv Sinha: Some of the manning costs and service costs have gone up.

Angad Singh: Among these 300 odd outlets, that you mentioned, there are about 83 centers and about 220 stores. What is the difference between the centers and the stores?

Rajiv Sinha: See, the center format is a completely Company owned format which is typically spread over anywhere from two to five acres. The earlier centers were smaller and the newer ones are close to four to five acres. These are complete in the sense that they have 10,000 square feet plus retained space plus warehousing and many of them have fuel pumps while some of them also have seed warehousing facilities and even have some banking outlets on the premises. So, it is a much larger module whereas a typical store.

A store is built in the hired premises and the retail area could be anywhere from 2,000 to 4,000 square feet depending on the location and they do not have these other additions or the other facilities that I just mentioned. We try to generally create these into a kind of a hub arrangement so that if there is a center there would be several stores which are geographically located close to this center and that is the way it works for us.

Angad Singh: So your warehouses and another financial services etc., are provided only in the centers?

Rajiv Sinha: Mostly here, warehousing is entirely in centers and financial services could be in a smaller way in other places. For example, we are doing some insurance selling which is of course being done from other outlets also.

Angad Singh: Regarding the warehouses that you have, I was wondering what kind of capacity utilization have you been able to achieve and has that improved over the years?

Rajiv Sinha: See, just to clarify these warehouses are been used in two ways; one is kept for our own needs. Secondly we are also in the business of producing variety seeds and selling it to the farming community. So these warehouses are used to store and process the seeds that we are growing and which is outsourced and grown on contract farming basis. We are not yet using these warehouses in a commercial capacity where we may give out the space against receipts.

Angad Singh: Can you tell me what kind of penetration rates have we achieved in the insurance business? Have the sales of insurance increased over a year specifically, or any other financial services that you have mentioned over here?

Rajiv Sinha: See, insurance is still in the early days, but I think we have made good progress in the life insurance part as well as some of the vehicle and medical insurance related work. We have recently taken a license as a broking Company because earlier the insurance companies were themselves trying to sell it through our outlets so that was not cost effective. So we are acting as a kind of a consolidator and offering products from different companies to the rural community. I would say it is not substantial right now but it is growing well.

Angad Singh: Can you provide an off hand rough percentage?

Rajiv Sinha: I will not be able give you that now.

Moderator: Thank you Mr. Singh. The next question is from the line of Yogesh Tiwari from Span Capital, please go ahead.

Yogesh Tiwari: Can you help me understand what the price elasticity in the PVC business is? I mean, if the prices of the raw material increases, can we pass the entire price to the customer?

Ajay Shriram: No, I think the reality is that these products today are unlike what it was five years ago in India. Today the import duties on the product range between 0%-5% or max 10%. So under this situation, it is really a supply-demand driven approach for determining the price. It is not only the domestic supply demand but also the international supply demand and consequently, international prices depend on dollar-rupee parity. All these have an impact on the price. So at occasions when demand-supply is in favor of the industry, the prices go up regardless of the cost of production and vice versa in the similar situation. So, it is not really linked to the input cost directly but it is linked to the supply demand.

Yogesh Tiwari: If the prices go up, can it be completely passed to the customer. Is there nothing like a 50% pass or something?

Ajay Shriram: Well it depends on how much the price goes up, for instance if you recollect, two years ago when the oil price went up to USD 140, then the whole equation of manufacturing cost went berserk. But now, the oil prices are lower and the cost of production is within the band which the customer willing to pay. This is a phenomenon which has to impact industry worldwide because that impacts India. So, as of today the situation is that the price fell a lot dramatically, and it has gone up a little bit in the last month or so and we expect it should be more positive in the a couple of quarters. Hence the margins will be better.

Rajiv Sinha: Just for your information, you might also be aware that the PVC capacity in the country is just about 70% of our requirement. So close to one-third of the requirement is getting imported into the country and this situation is not likely to change very much because there are not too many capacities which have been announced. So this will have its own impact on the domestic pricing and the stability of the domestic pricing.

Yogesh Tiwari: You earlier said that you will be looking at a trade off between different products i.e. PVC as well as power depending on the realizations. Is that correct?

Ajay Shriram: Correct.

Yogesh Tiwari: So if you look at crude oil, that is going up now; there are chances that the PVC prices might go up going further three to four months down the line. So do you think that you will be producing more PVC and selling less of power going forward?

Ajay Shriram: Well, let me put it this way, I think in our case the price of petrochemical products going up does not impact directly because one is we have the calcium carbide route, wherein the clinker of calcium carbide is mixed with water to get elasticity exactly which is then combined with chlorine to make PVC. But I think more important in our case when we mentioned about the swing capability to sell power vis-à-vis manufacturing our own products. Now the economics or the most advantageous position depends on what is the best price we can get per unit of power. So our equations today of calculating the profitability of the business has moved from a product equation to our net back on our power equation. So we are now evaluating and seeing if we can sell power at Rs. 6 per unit, is the realization after all costs, adequate to give our net back on power better than Rs. 6 or not. If it is not, we will not produce the product and we will sell power else we will produce the product. So our calculation today is based on the net back for unit of power.

Yogesh Tiwari: The realization in power is around Rs .6.20 Paisa. At certain places it is still around Rs. 5. So do you think this rate is sustainable going forward?

Rajiv Sinha: We have a certain quantity contract with the Rajasthan Vidyut Vitran Nigam which is the Electricity Distribution Company in Rajasthan and this contract was a one year contract which began in July 2009 and it will continue till June 2010. So, for a certain quantity for which we have a contract, we will get a rate of Rs. 6.20 or so. We also have options of selling them more power depending on their requirement and then the last four months since July to let say October, we have actually sold them much higher than the contracted quantity. So as of now there is a minimum which will continue to go at Rs. 6.20 and above that we will sell depending on A) the price of PVC and Chlor-Alkali and B) our ability to get rates from the energy exchange. Just for your information, typically the period from November to let say April or May is the period where power shortages are at their peek because of agriculture requirements etc. and hydel generation falls in the winter season because of the snow formation. So the last two-three years experience is that in the coming period the rates could even be better. For example, last year the rates were of course extraordinarily high during this period. The rates even touched Rs. 10 and Rs. 11 sometime last year. But in any case we expect that this rate is sustainable.

Archana: You earlier said that sugar realization is anywhere between Rs. 30 to Rs. 35. How the demand supply scenario is and now since the festival season is over, do you see the sugar prices pulling off going forward?

Ajit Shriram: I think as far as India is concerned, there will be a deficit of between 6 to 7 million tons of sugar in this coming sugar year 2009-2010. Out of this, 6-7 million tons about 4 million has already been contracted. So the balance of 2 to 3 million tons is yet to be contracted over a year. So the prices should be firm going forward taking into account the demand-supply imbalance. Also the International prices will be governed by the largest producers in the world i.e. Brazil and Brazil has been having an adverse weather condition for the last couple of months. So, that will also affect sugar prices in a positive way.

Archana: As the UP government has said that the sugarcane prices will go up now. So what will be the effect at EBITDA level?

J. K. Jain: That depends on the prices first because the prices have still not been formed up. So I do not think one can work out the EBITDA effect of that.

Moderator: Thank you Ms. Archana. The next question is from the line of Avinash Agarwal from Sundaram BNP Paribas, please go ahead.

Avinash Agarwal: Are you importing any raw sugar this year?

Ajit Shriram: We have already imported about 10,000 tons of raw sugar for processing in the season.

Avinash Agarwal: Are your boilers in sugar mills capable of running on coal?

Ajit Shriram: They are multi-fuel boilers, but we will have to incur marginal investments for the coal handling etc.

Ajay Shriram: We can use bagasse and wood chips but in small quantities. However, at the moment, we are not built up for coal; if we want to do that then we will have to do that in the next off season.

Avinash Agarwal: But do you plan to do that once the open excess legislation comes through?

Ajay Shriram: I think we will have to wait for government policy to understand what comes out of that and then work out the economics. We are currently studying that though we have not taken the view as yet.

Avinash Agarwal: What is the import cost of coal for you right now?

Ajay Shriram: For this cost of coal, we import coal for our Gujarat unit. I think it is at about Rs. 5,000 a ton delivered or a little under Rs. 5,000 per ton delivered in Bharuch in Gujarat. But you must remember the coal cost per ton is not a correct indication because the quality of cost varies substantially and calorific value of the coal can be raised on 3,000 CV to almost 6,000 CV or 7,000 CV. So actually the per ton price is not a very clear indicator. It is more important to understand what the price per kilo calorie is and are they calculating at calories per 1,000 kilocalorie. We calculate on that basis to determine the landed cost of coal.

Avinash Agarwal: What will be the calorific value of your coal?

Ajay Shriram: It will be about 6,000 kilocalories.

Avinash Agarwal: Is that from Indonesia?

Ajay Shriram: That is right, Indonesia and Africa. We are also getting coal from South Africa.

Avinash Agarwal: Are these on long-term agreements or on a spot basis?

Ajay Shriram: No, they are not long term, because the market is volatile and the coal price has been moving up and down internationally quite substantially. So we take a call and for some cases in the past, we have booked for six months ahead also. But this is not a long-term contract in that case.

Avinash Agarwal: What will be your current debt and cash level?

J. K. Jain: Debt is about Rs. 1,500 Crore. Cash is pretty minimal which is required for our day-to-day activity i.e. about Rs. 80 Crore of cash is what we require as a safety margin.

Ajay Shriram: Keeping cash in the factory is not very efficient, so we would rather have it invested somewhere.

Avinash Agarwal: How is your bio-seed business doing?

Rajiv Sinha: Bio-seed, I think this year, like last year, we expect a much better year particularly in some other field crops like cotton. The effect of the weather has been erratic on products like corn and hybrid paddy. So we may not see a growth in some of these products. So largely the growth is coming from our BT cotton varieties and we expect growth to come into vegetable seeds and we have the confidence that our last four years to five years of investments in the research program have really strengthened our product portfolio and in all the field crops and vegetable crops. We now have very competitive product offerings for most of the regions in the country and similarly our business is also well established now in Vietnam and Philippines. Also we have done some exports to Indonesia. So overall, I would say that the business would grow quite a bit.

Avinash Agarwal: At the beginning of the year, you mentioned that the growth could be as high as 40% to 50%. So do you think it would be lower than that now or because of the drought?

Rajiv Sinha: I think at EBITDA level, we should not be too far from that.

Avinash Agarwal: So these numbers will come at the year end?

Ajay Shriram: Yes. But I think as we have talked about it earlier also, there has been a problem of drought in certain places in Andhra Pradesh. Also, Hyderabad is where our main center for bioseeds is and even that area has had problem of floods. So I think a little uncertainty is there but on an overall basis it is moving as what Rajiv and others mentioned just now.

Moderator: Thank you Mr. Agarwal. The next question is from the line of Shrinath V. from Probe Equity, please go ahead.

Shrinath V.: I just heard the debt levels are Rs. 1,500 Crore. Is this against Rs. 1,900 Crore in FY09?

J. K. Jain: Debt in FY09 was about Rs. 1,950 Crore. So we are down by about Rs. 450 or Rs. 460 Crore vis-à-vis March 2009 number.

Shrinath V.: The Company is consistently leveraged at 2:1. So have you changed your policy?

J. K. Jain: No, our current leverage is at 1.2:1 and even on March 2009; if I remember correctly it was about 1.5:1.

Shrinath V.: Could you share some percentage numbers on bio-seeds as to how it has done for the first half.

J. K. Jain: We do not have that right now.

Shrinath V.: Is there any plans of reporting consolidated numbers going forward?

J. K. Jain: We will have to take a view on that. We have not done that so far. End of the year, of course, it is done but during the quarter, we need to take our view and discuss it.

Shrinath V.: What are the trends going forward for that business unit; say a year or so down the line.

Rajiv Sinha: As I mentioned earlier that our main strength is coming from our research products in our pipeline and both on the conventional building program as well as some work that we are doing on the biotechnology side. So, we are very positive about this business going forward and I think we have built up a strong marketing presence across India in mostly all the states and we are also diversifying our seed production capabilities along with strengthening our positions with both product and people in places like Philippines and Vietnam. For example, in Philippines, we have become the first Company to launch GM Corn and we are starting the marketing of that product. So I think, as we move forward, we have the basic strength and we are one of the first few companies who is present in nearly all the major seed crops as well as in the vegetable crops making us very positive on the future for this business as we go forward.

Shrinath V.: How much time does it take for specific idea to come from the research to the market?

Rajiv Sinha: In conventional building, it could take anywhere between two to four years and in biotechnology area it could take about five to seven years.

Shrinath V.: How does the cement business fit into your overall rural value chain strategy and also the EBITDA contribution is just about a few Crore. Do you see that you would want to hive off this business going forward, as it does not make a meaningful contribution to EBITDA as well as revenue?

Rajiv Sinha: I would say that the EBITDA contribution is not exactly small. Let me put it this way that the cement business is not a business which has been considered independently. We operate a carbide based Chloro-Vinyl complex at Kota where calcium carbide is raw material for manufacturing of PVC and when calcium carbide is reacted with water, it generates a particular type of waste material sludge. This cement plant has been set up to utilize that sludge as a raw material for making cement. Otherwise this would be a huge pollution hazard problem. So the cement capacity and the size, and the process has been determined by the peculiar raw material that we are using and we believe that we are the only such plant in the world apart from China where some of the carbide based complexes have made cement from this. So the cement business has not considered being a standalone business in that sense. It is a very close integration, which fully utilizes the waste from our calcium carbide PVC complex and produces very good quality cement and that is why we have a brand premium in the market and that is why the EBITDA numbers of 2008 and 2009 show the contribution it has been able to make.

Moderator: Thank you Mr. Shrinath. As there are no further questions, I would like to hand the floor back to the management of DCM Shriram for closing comments. Please go ahead sir.

Ajay Shriram: Thank you very much ladies and gentleman for joining us on this conference call today. As we indicated that there were some plant shutdowns in the last quarter that affected the bottom line, but I think with the swing capabilities and multiple revenue streams, we are quite confident that we will get the results going forward. Sugar as you seen is better now, this coming season should be good in terms of sugar prices. We are confident the future is good. Thank you once again for joining us. Good bye.

Moderator: Thank you gentlemen of the management. Ladies and gentleman, on behalf of DCM Shriram Consolidated Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
