DCM Shriram Consolidated Limited
Q4 and FY2009 Earnings Conference Call
June 4, 2009 at 12:00 Noon I.S.T.

Moderator: Good afternoon ladies and gentlemen. Welcome to DCM Shriram Consolidated Limited Conference Call. I am Priyanka, the moderator for this conference. 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 now like to handover to Ms. Sherna from Citigate Dewe Rogerson. Thank you and over to you ma'am.

Sherna Pestonji: Good afternoon everyone. Welcome and thank you for joining us on DSCL's Q4 FY 2009 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, Chief Financial Officer of the Company. Some of the statements being made on this call may be forward looking and a note to that effect is 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 operations in the quarter under review. Over to you Mr. Shriram. Thank you.

Ajay S. Shriram: Thank you. Good afternoon ladies and gentlemen and a very warm welcome to DSCL's Q4 and FY2009 conference call. Let me begin by stating that our measured pace of business conduct has ensured that it remains fairly stable even during tough economic conditions. Our multi-dimensional businesses have helped us manage the risks that are prevalent in the operational environment. The Company has continued to strengthen its operations in both the Agri/Rural businesses and the Chloro-Vinyl businesses, with increase in scale and exploiting new revenue streams.

The Agri/Rural businesses of our Company include Fertilizer, sugar, Agri inputs, bioseed, and Hariyali Kisaan Bazaar.

Let me begin with Hariyali Kisaan Bazaar which continued to enlarge its engagements with rural communities by expanding its offerings and reach. As on March 31, 2009, the total outlets stood at 301 compared to 160 on March 31, 2008. The Company in the quarter added 56 outlets, thereby reaching the target of 301 outlets on March 31, 2009, with presence across eight states in India. With a wide footprint across Northern, Central, Western, and Southern India, the focus going forward would be to scale up volumes of the Agri vertical. This will include providing Agri solutions to farmers in their fields, to scale up the financial services vertical, to develop strategic alliances in all business verticals, to strengthen our supply chain management, and to rollout strategy to enhance customer loyalty and build the brand.

In the Bioseed and the Agri Input businesses of the Company, the focus is on providing the latest generation hybrid seeds and other Agri inputs to farmers to help them become more profitable and increase farm productivity. Our strong research base, brand, marketing and distribution network established over the past many decades has started to yield results with strong revenue and profit growth in these businesses. With our commitment to continue to introduce new updated products, we are confident of strong growth in these businesses in coming years.

As you all are aware that the sugar prices have been on an upward trend due to the lower production in the sugar season 2008-2009. This business registered improved performance with sale of inventories from sugar season 2007-2008 at better realizations. We witnessed lower production at our sugar plants for the sugar season 2008-2009 due to lower cane availability and the lower recoveries due to climatic conditions. This was also witnessed by UP Sugar industry in the sugar season 2008-2009. These adverse developments along with substantial increase in cane price led to higher production cost of sugar in the season 2008-2009. Cane availability is expected to remain a challenge even in 2009-2010. The sugar prices will therefore determine the profitability of this business in the coming year.

On the Chloro-Vinyl side, we leveraged our swing capabilities to enhance direct power sale to maximize earning when the profitability of other products in this segment are going through stress. This swing capability has proved to be a risk mitigating factor for our Company, and we continue to strengthen these capabilities further.

In the Chemical business, the Company further enhanced capacities at its Bharuch facility to reach 440 TPD in February 2009 from 200 TPD in March 2008. Also, the 48 MW coal-based power plant which was commissioned in Q2 FY2009 thus replacing the furnace oil based power plant enabled us to derive cost advantages during the quarter. To enhance our swing capabilities further, we plan to sell power directly from Bharuch facility in due course.

The PVC businesses witnessed margin pressure due to lower realizations. However, the Company took advantage of the swing capabilities to sell more carbide and is also building capacities to produce PVC from purchased VCM which will further enhance our capability.

In Fenesta Building Systems, our strategy to focus on the retail segment is working well and has demonstrated good demand for the product. This has resulted in better revenues and profitability. The order booking during the quarter was 30,549 windows and the outstanding order book as on March 31, 2009, stood at 1,22,491 windows. We are planning to increase our marketing efforts on the retail side which is expected to provide encouraging growth to this business in the coming years.

We have completed almost all our capital expenditures which were under implementation. The focus in the coming year would be to realize full-year benefits of the capacity expansion in our Chlor-Alkali business and the cost efficiency arising from the coal-based power plant facility at Bharuch, grow volumes and margins in Hariyali Kisaan Bazaar, grow retail volumes in Fenesta Building Systems and maximize returns per unit of power from our Chloro-Vinyl businesses.

To close, our results reflect the strength of our business model in market conditions that were challenging. We are seeing greater signs of stability across all our businesses. Our strategy to expand the Agri/Rural businesses along with developing flexible multi-earning streams from the Chloro-Vinyl including power segments makes us confident of recording positive performance across all our businesses in the coming years. I will now request Vikram to take you through the financial numbers for Q4 FY09. Thank you.

Vikram S. Shriram: Thank you. Good afternoon ladies and gentlemen. I will now summarize the numbers for the quarter and the year ended March 31, 2009, which we believe are encouraging especially in light of the current operating environment. During the quarter, EBITDA reached new record of Rs. 126 Crore, a growth of 96% over Q4 FY2008 and 27% over Q3 FY2009. Interest expenditure at Rs. 39 Crore was lower than Q3 FY2009 by 17%. The PBT, PAT, and cash profit therefore registered good growth. The PAT also incorporates credit arising due to reduction in deferred tax liability after incorporating the benefits of exemption of power profits under section 80-IA of the Income Tax Act.

The results of financial year 2009 also recorded effective growth, with revenues rising by 36%, EBITDA by 76%, and cash profits by 78%. The PBT and PAT also went up accordingly. With Bioseed business witnessing substantial increase in turnover in profits, the consolidated results recorded good growth. EBITDA reached Rs. 400 Crore versus Rs. 218 Crore last year on a consolidated basis.

Almost all segments contributed to this improved performance. Sugar recorded major turnaround, PBIT of Rs. 88 Crore from a loss of Rs. 5 Crore last year. This was primarily due to improvement in the sugar prices and sale of low cost sugar inventory of sugar year 2007-08. In sugar year 2008-2009, the Company witnessed a sharp increase in production cost due to sharp increase in cane prices, lower sugar recovery, and substantial drop in production. This was an industry-wide scenario in U.P. Firm sugar prices throughout 2009-2010 will be crucial to good results from this business in the current year. The PBIT from Agri Inputs and Bioseeds business multiplied by approximately 3 and 4.5 times respectively due to increase in turnover as well as better margins. These businesses are expected to continue to perform well with continued buoyancy in Agriculture and our product and marketing strength. The Fertilizer business PBIT went up to Rs. 25 Crore from Rs. 20 Crore due to higher production and better energy efficiency.

The payment of part of the subsidy through low coupon and less liquid Government of India bond is a matter of concern. We have started receiving gas from the KG Basin with effect from May 2009 which will help in improving our cost structure and reduce subsidy outstanding amount on products.

The Chloro-Vinyl segment turnover went up by 21% to Rs. 841 Crore and the PBIT by 34% to Rs. 198 Crore during the year. The swiftness with which we could switch over to direct sales of larger quantity of power during the year contributed in a major way in sustaining the profit growth in the segment. The Chemical facility at Bharuch completed its expansion program along with commissioning of 48 MW captive coal-based power plant. Full economics of this program was realized in some months of Q4 FY2009. It will result in volume growth and cost savings for the full year 2010.

Cement continued to record satisfactory performance with a PBIT of Rs. 26 Crore against Rs. 28 Crore last year. Amongst the other segments, Fenesta business turned EBITDA positive during the year with improvement in volumes and margins.

Polymer compounding business also recorded good performance though; textile was affected by external factors. The other segment therefore had a negative PBIT of Rs. 3.5 Crore against a negative of 17.5 Crore last year. Hariyali, which is an investment force, recorded higher negative PBIT at Rs. 65 Crore from Rs. 230 Crore last year, as the Company accelerated opening of new outlets. Having reached critical scale, the Company is focusing on strengthening operating efficiency and growth turnover in this business, which includes need for improvement in its financial results in the coming years.

I should also add here that we are now through with most of our capex initiatives. Our project outlay for the next year is minimum. We believe that our businesses will deliver better results in the coming years, and we plan to utilize the same for strengthening our balance sheets.

With that, I would like to conclude. Thank you once again for joining us on this conference call. We will be very happy to answer any questions that you 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 Mr. Nirav Vasa from Gupta Equities. Over to you sir.

Nirav Vasa: My first question is related to your sugar business. Can you just throw some light on what was the opening stock of your sugar that you had in terms of quantity as well as at what price was it valued?

J. K. Jain: The opening inventory was about 33 lakh quintals in the beginning of this year at a cost of about Rs. 1,400 per quintal.

Nirav Vasa: What is the closing stock as of now and at what price have you valued that?

J. K. Jain: Closing stock as of now is about 17 lakh quintals. See, there is some old stock of 07-08 and from 08-09. I don't have the cost right now. We will get back to you on that.

Nirav Vasa: You repeatedly informed in your opening remarks that because of climatic conditions there was impact on the quality of cane. Can you just highlight that a bit more please?

Ajit S. Shriram: In our region in Central UP, we had a very heavy flooding over prolonged periods due to heavy rains. We recorded the highest rainfall in the last 50 years, so this was the reason for the adverse recovery.

Nirav Vasa: Do we have distillery operations in your sugar units.

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

Nirav Vasa: So then whatever molasses that you have produced must be sold in open market.

Ajay S. Shriram: That is right. This is sold as per some reserve quota which we have to sell to country liquor and the rest is sold in the open market. That is the state government policy.

Nirav Vasa: What was your realization per tonne of molasses?

J. K. Jain: We sold up to Rs. 500 per quintal during this particular year.

Nirav Vasa: You continue to emphasize in your presentation that you market a lot of genetical seeds and Fertilizers, etc. Are there any changes in the farming techniques that need to be inculcated by using these kinds of seeds? Can you just throw some light on that?

Ajay S. Shriram: Because of hybrid, high-quality seeds, in all our Hariyali Kisaan outlets as well as through our marketing and distribution and our own system where we have what we call Shriram Krishi Vikas Kendras, we move to advise the farmer how to use the best Agricultural practices to improve the yield and improve the quality of his output, so that is something which is continuously being done. In fact, along with the seeds we give the advisory, we give a little booklet, which gives the advice to farmers as to how to optimize the yield, so that they are guided of what are the best practices, so that the farmer gains at the end of the day. So, we actually are very actively involved. In fact, as a Company philosophy whether it is in Hariyali Kisaan Bazaar, Seeds, Sugar, through Agri inputs division, this segment of advisory services to the farmer, interacting with the farmer, helping the farmer improve is a very integral part of our Company philosophy.

Nirav Vasa: Are these farmers receptive to accepting of new seeds. Traditionally the practices that were adopted are hard to get off especially in the farming industry in the country considering that the average holding of farmers is much lower compared to international standards. Are they much receptive to new trends that are coming up?

Ajay S. Shriram: I think BT cotton has been accepted and finally pulled off the shelves by the farmers because they get a benefit with that, but otherwise also I think seeing is believing. We believe in the philosophy that unless we put up demonstrative thoughts and until farmers can see the difference between what good practices, good seeds can do vis-à-vis a normal operating procedure, they would not be interested. I can tell you Indian farmers are very shrewd businessmen, and they are very clear that look if they get a financial advantage, they will move in that direction, at least majority of them will. I can’t say that for everyone, but majority of them will. So, we are finding that the farmers are receptive, whether it is in our seeds business, sugar business and are keen to improve.

Nirav Vasa: Is this receptiveness coming from mid-size farmers owning around 5 to 10 acres of land i.e. big farmers.

Ajay S. Shriram: All farmers are interested because when they have a smaller piece of land, the total output they get is low, so they are the ones also very interested to ensure that for my small piece of land how do I get more produce. So, everyone has taken it up.

Nirav Vasa: There was bumper production in the Agriculture industry last year in terms of number of crops, especially like wheat, and as a result of that in some parts of the country, the farmers were not even able to get the minimum MSP which was granted by the government. So can you just throw some light on what is the mood as of now in the Agricultural industry considering some mixed actions that have been undertaken by the government? Are they really ready to invest in their businesses, something like that?

Ajay S. Shriram: I think the mood is fairly upbeat, and we are finding that even in the last couple of months of this financial year, there is a reasonably good pull on Agri Inputs, which means the farmers are buying and sowing. Of course, monsoon always is a big variable in Indian Agriculture, and if monsoon performance is reasonably okay, I think we would have another good year. I don’t think there is too much problem in terms of farmers not having realized MSPs, etc.

Vikram S. Shriram: Also the fact is that the MSPs have been increased very sharply over the last 3 to 4 years for wheat and rice, so the profits available with the farmers for buying Agri Inputs and for reinvesting to be able to improve his productivity are higher because his profit margin in that is much better. That is showing a great pull for all types of Agri Inputs and improved farming practices.

Nirav Vasa: Are these genetically modified seeds and advanced Agricultural practices accepted across the board or when it comes to Agricultural practices, it is restricted to some cash crops only like cotton or some vegetables or something.

Vikram S. Shriram: Let me just clarify that. In India the genetically modified crop is only confined to cotton. There is no other field or a vegetable crop where today you can sell genetically modified seeds. In case of cotton, the progress in adoption of GM cotton is absolutely astounding and unparallel to anywhere in the world. With the result that over 90% of the farmers have switched over and in 3 to 4 years' time India is now a major destination for cotton, both for domestic consumption and exports.

Nirav Vasa: What was the capex that was incurred in FY09 and can you quantify that as per your various business heads?

J. K. Jain: It was about 300 Crore, primarily on Hariyali and on Chloro-Vinyl.

Nirav Vasa: Nothing on sugar?

J. K. Jain: We added about 24 MW of Co-gen capacities. It was completed during this particular year.

Nirav Vasa: And how was this capex funded?

J. K. Jain: This was through loan and internal accruals.

Nirav Vasa: What is the interest rate that you are paying for the outstanding loans that you have on your balance sheet.

J. K. Jain: For the long-term loan, it is fully hedged, which is about 8%. For short-term loan, during the quarter, it was high about over 10%, but now is going below 7%.

Nirav Vasa: I believe it is linked with the PLR?

J. K. Jain: Actually, you have loans which are negotiated bilaterally which are on ad-hoc basis, and there are loans which are PLR linked also.

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

Falguni Thacker: Just a few questions on the sugar sector. Firstly, there were reports in the paper stating sugarcane acreage to this seasons i.e. FY10 is witnessing a decline, especially in UP. Is it true and what is the kind of trend that you are witnessing in terms of acreage, and secondly how much would you think that the country as a whole could do for the next year that is FY10?

Ajay S. Shriram: See, to address your question on the cane acreage in UP, there is not much difference in West UP; however, in Central UP, there is a decline of roughly 8% to 10%, but on the other hand, what we are seeing is a very robust performance by the farmers on the field, and with the current crops, we expect the yield to improve substantially over last year, since last year they had heavy flooding.

Falguni Thacker: What kind of production increase can we expect in sugar in the next season?

Ajay S. Shriram: It may be the same or marginally more, one really cannot be definite because the monsoon is still awaited, so this being a largely monsoon driven activity as far as the irrigation is concerned.

Falguni Thacker: What is the early estimate, if you could give that?

Vikram S. Shriram: There would be an increase, but we can't really say whether it will be 10%, 15%, or 20%, that will be monsoon dependent.

Falguni Thacker: How much sugar imports are expected to happen in FY10, domestic as a whole?

Rajiv Sinha: The initial feelings are between 2.5 to 3 million tonnes of raw sugar import for the current season.

Falguni Thacker: I am just talking of the next season because there are talks that the raw sugar import deadline would be extended.

Ajit S Shriram: That is there, yes, but however, if you see that the future prices of sugar, they are extremely volatile, and one is not to be clear on the government policy, so I mean there are no fresh bids being taken on yet.

Falguni Thacker: As per the old contracts; those who would have contracted would process it only in the next season? What is your sense, how much could that be?

Ajit S. Shriram: Roughly 2 million for FY10.

Falguni Thacker: Would the cost of imported sugar be about Rs. 23 a kg as of now?

Ajit S Shriram: No, as per our calculation, in UP, the price would work out to roughly Rs. 27.

Falguni Thacker: Are these port based location?

J. K. Jain: See, in the internal transportation you can say for us will be about Rs. 1,500 a tonne, so you can reduce that.

Moderator: Thank you very much ma'am. Next in line, we have Ms. Parul Patel from Avendus Capital. Over to you ma'am.

Parul Patel: You mentioned regarding the fact that this Company has acquired critical mass across its key divisions and then no further plans in expanding and that you are going to benefit from economies and plus the switch to coal-based power plants, so what is the kind of improvement do you see in EBITDA margins. Can we see them coming back to about 16% for the Company as a whole?

J. K. Jain: They should remain broadly at Q4 level.

Parul Patel: What would be the interest costs for the full year? Can we extrapolate the Q4 number for the full year roughly at about Rs. 150 to Rs. 152 Crore?

J. K. Jain: See, interest rates have come down vis-à-vis Q4 FY08, so we will have a saving on that account. The second advantage is that we are going to use our internal accruals to repay the debt wherever we can because we don't have significant capex, so it should mean reduction in borrowings.

Parul Patel: And your depreciation block should be close to about Rs. 151 Crore?

J.K. Jain: Yes.

Ajay S. Shriram: I will just add one more point that in a focused manner we are also looking at our current assets. So, I think the current asset reduction also helps in terms of the cash flow.

Parul Patel: What should be the effective tax rate going forward?

J. K. Jain: For this year, I think it will be about 30% but after that it will be probably about 23% to 24%.

Parul Patel: What kind of topline growth do we see in FY10? I mean you have grown at 35% compared to last year, so what is a more sustainable topline growth that we see. You have given the highlights across all divisions, but on a cumulative basis, what can one expect?

J. K. Jain: That is difficult to say in our business as we have been saying that it is difficult to predict commodity prices. So, I don't think we can give any numbers, but what will also happen in terms of value of course is that in Fertilizers; since we have shifted to gas, there will be a reduction in value terms though not on volume terms. The turnover in fact may contract on Fertilizer accounts, but on the other hand, Chlor-Alkali will have volume increase because of benefit of increased capacity. So, there will be business wise ups and down both on volumes and quantity and prices account. It is difficult to give a definite trend on that.

Parul Patel: But a baseline would be like 10% is the given, right?

J. K. Jain: I don't think I can give any number on that.

Ajay S. Shriram: See, because of the swing capability, we are selling power from our Kota Complex, from our Sugar Complex, and as I have mentioned we want to start selling power from Bharuch Complex. We will do it in case it makes business sense, so in case we get a better net PAT from any of the businesses that are power based; so it is very difficult to give an indication of what really is the projected turnover in the coming year 2009-10.

Parul Patel: Suppose if you were to not produce anything in your Chloro-Vinyl and used entire swing capability of selling power, then how much power could you export.

Ajay S. Shriram: Honestly, we can't export too much because, in Kota there is a law that you can't go more than 50% of your captive capacity, and in sugar we have an installed capacity of 50 MWs, which we can sell over there, and frankly speaking, the power purchase situation also is very, very volatile. So, because of that, we don't know what is going to be the power rates, power sale, and for how many hours it is going to be and at what rate. It is a very dynamic situation. It is very difficult to give any prediction on this front at all.

Parul Patel: So, on the Chloro-Vinyl, you are pretty certain with regard to the way the recent trend has been with regard to realizations, can one make a safe assumption that at least on a realization front there would not be a downward trend. In fact, there has been a marginal recovery.

Ajay S. Shriram: No. I will put it this way, frankly speaking, that with the dollar, rupee is also changing, the imports are getting cheaper. A lot of it will depend also what is the international market situation, so whether it is PVC, caustic soda, they are all coming into the country on imports also, although they govern the price.

So, I think it is very difficult to say that it would not go below this or it will definitely go above this. Commodities take a swing, and frankly if the oil price suddenly shoots up to USD 120, the whole scenario changes again. So it is very difficult to give any sort of a commitment on prices or any indicator on prices because of the volatility in the situation.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Rishab Bothra from B&K Securities. Please go ahead sir.

Rishab Bothra: What would be the production in Fertilizer segment because we can produce more than 100% with the new policy?

Rajiv Sinha: In the last financial year also, we did produce about 14,000 tonnes extra urea and that was beneficial. I think this year also we have a Fertilizer turnaround plant during the next quarter, so depending on how the situation is towards February-March, and as we were saying depending on what kind of rates are available for sale of power, we will try to see we want to make any extra urea. Last year was the first time that we produced this extra quantity over our capacity.

Rishab Bothra: Does feedstock from naphtha to energy make any difference because the cost is pass-through, and what would be the proportion we will be using at feedstock?

Rajiv Sinha: We have switched over 100% to the gas which is coming from the Reliance KG Basin supply from May 09, and we expect that broadly during the year unless there are disruptions in supply, we should be able to maintain full gas. As you rightly said, this is a pass-through, so there are no direct inventories except that since the price of gas is much lower than naphtha, our receivable from the government for receiving the money does go down. So there is some help in the current assets, and we do expect some improvements in the energy consumption as we are using gas.

Rishab Bothra: What kind of margin do we see especially in the Fertilizer segment?

Rajiv Sinha: I think the margins will be broadly the same because this is a price determined and fixed by the government. There could be slight improvement in energy that should marginally inch up the profit margins in this area.

Ajay S. Shriram: But the turnaround would be there.

Rajiv Sinha: As was mentioned earlier, the topline will of course will be significantly lower because just to give an idea, the gas is about USD 6.8 per million BTU, whereas corresponding naphtha would have been USD 13 to USD 14. So that makes a big impact on the topline.

Rishab Bothra: Topline will reduce but the margins will remain the same.

Rajiv Sinha: Maybe slightly better.

Rishab Bothra: On the Chloro-Vinyl side, how is the demand picking up with the industrial production going forward, will it be positive on the economy.

Ajay S. Shriram: Chloro-Vinyl is moving alright, the demand is moving alright. It is growing at a regular pace. What is happening and of course a good thing for India is having a 6.7% GDP growth last year, and expectations are now that it will again come back to hopefully around 8% mark. I think it is a positive situation. On the Chloro-Vinyl front, some new plants have got commissioned over the last 6 months in Gujarat, so that is going to have the impact on the prices. PVC will grow. PVC is already importing almost about 60,000 to 70,000 tonnes per month. So, I think with that happening, PVC demand is growing well, but prices are determined by the international price of PVC as well as Dollar-Rupee parity.

Rishab Bothra: Are we seeing any input cost pressures also or is only realization pressure?

Rajiv Sinha: Broadly, I think the input prices, we don't expect any change, but there is some information about Coal India wanting to revise coal prices, that of course will have an impact on power generation cost and therefore because energy is an important raw material for us. Other than that, we don't expect input cost to create any further pressure.

Rishab Bothra: What could be power revenue for the Chloro-Vinyl segment from power and Chemical and Plastic, if you could elaborate?

Ajay S. Shriram: No, it is very difficult to give any figure because as I mentioned earlier, it depends on the price or the selling price of caustic soda, of chlorine, and of power, and calcium carbide. So, our option, which is our advantage, as you can swing between these four depending on what is the actual best for the Company.

Rishab Bothra: What kind of trading volumes do we foresee in Agri Inputs?

Ajay S. Shriram: We had a trading turnover of about Rs. 380 Crore last year and want to grow. We are continuing to keep it going. A lot of it depends on government policy vis-à-vis imports of DAP, MOP, etc. In case that is good, we will get back into that. We used to do that until 2 years ago, but we stopped because of the losses that we incurred two years back because of the policy of the government, but we expect the other part, excluding DAP, MOP, to grow well because of our very intimate contact and reach in rural India.

Rishab Bothra: Start importing these products in case of any government changes.

Ajay S. Shriram: No, in terms of government policy, in case it becomes more practical and conducive and the risk element comes down, we will be happy to import that because the farmers actually are looking for the products.

Rishab Bothra: What kind of profitability do we see because cane cost has increased sharply last year, and this year also there is lower availability of cane expected and the Supreme Court case will be coming in July, so in that respect what sort of pricing do we see?

Ajay S. Shriram: It is difficult to say again, and as I mentioned earlier, and as you rightly said that the cane availability is going to be low, the sugar availability is low, it depends a lot on the sugar price. That is going to be the determining factor, so I think it is difficult to predict what is going to happen. I think it is difficult for anyone to predict, leave alone any corporate, but no one can really give an indication.

Rishab Bothra: Everyone paid around Rs. 140 and over Rs. 140 during the last ending crushing; so in that sense what kind of cane pricing do we foresee because UP government will not reduce the cane prices.

Ajay S. Shriram: No. It won’t come down. It is only likely to go up. That is for sure.

Ajit S. Shriram: I think it also depends a little bit on what is the intercrop price strategy that the industry takes at this point. There must be some sort of parity between the prices of various Agricultural produce, so that there is rationality. Otherwise, if you increase one too much and the other one is low, the farmers will all swing to that product.

Like what happened this year with wheat. Then, the sugar cane is left behind. So, it depends a lot on what the center comes out with their CACP pricing and then what the state fixes. Yes, you are right. It will not come below Rs. 140 in any case.

Rishab Bothra: Could you elaborate more on what kind of square foot or revenue do we have per square foot and what is the expansion plan going ahead like till how many years we will be expanding and to what scale and what is the expected breakeven point at EBITD level and PAT level for the HKB business?

Ajay S. Shriram: Because lot of these outlets have come up during the year and typically it takes about a couple of years before an outlet starts showing profits, so our effort this year in light of our desire also to keep capex low, is much more on consolidation. So, what we would do this year is, improve the quality of business at each of these outlets through more offerings, more customers, and more services including financial services like insurance products.

: So, we expect that there would be a significant improvement in the EBITDA level performance of Hariyali during this year, but we will still not be at a breakeven level. I mean, it will take us more time, and it is only in the second half of the year, we will decide about addition of further outlets, etc., as the business moves. The positive signs are that rural economy looks quite robust of whatever we have experienced in the urban cities, and with the schemes like NREGA and some loan waivers and generally good crops, we expect that there is a robust customer base that we would be able to see in Hariyali. So, this year is going to be more a year of consolidation and improvement of the quality of business and then we will take the next steps to grow.

Rishab Bothra: Could you elaborate on what kind of expansions do you plans this year. As you mentioned, six months we are not planning any expansion up till first half, second half we will be expanding. So, what would be the outlets being opened and could you also mention what is the revenue per store which you have opened initially and the profitability derived from those stores?

Ajay S. Shriram: I will put it this way that as we mentioned, we are looking at consolidating our strategic directions this year for Hariyali business and is to improve our offerings, improve the efficiencies, get larger customer footfalls, and implement a loyalty program. With all that happening, we expect to actually improve the operations in each of our stores. We are not planning to add any more in this financial year. We might strategically look at adding one or two here and there in case the customer requirements are there to make, just a group of stores more efficient. In terms of per store revenue, I think you look at the average. Our turnover in this business has been about Rs. 420 Crore and we have 300 stores. So, that gives you an idea, but the age of the stores is different. As on March 31, 2007, we had 70 outlets. In March 2008, we had 160, and this year, we have got 301. So, each store actually grows over a period of time when it gets established and the business activity in that grows due to the publicity and the presence of the store getting known in a wider area. So, that will give an idea of what the turnover is like and the number of store.

Rishab Bothra: What kind of revenue and profitability are you deriving from the stores which you opened two years ago?

Ajay S. Shriram: To be honest, we do not have that figure here, but if you want, you can send us a letter and we will be happy to share with you.

Rishab Bothra: What are the debtor days, creditor days and inventory days for the Company?

J. K. Jain: Company as a whole, we have, the main debtor is actually subsidy outstanding from the government and some amount in Fenesta. Other than that, we do not have any significant outstanding.

Rishab Bothra: Subsidy will reduce significantly going forward?

J. K. Jain: Yes.

Ajay S. Shriram: Yes, subsidy will come down. As we have mentioned that there is a change of naphtha to gas and gas pricing is USD 6.8 and naphtha was ranging between USD 11 - 14. So, with that, the total outstanding will come down from the government.

Rishab Bothra: You mentioned that the raw sugar import landed cost will be Rs. 27 for you in UP.

Ajay S. Shriram: No, that is not landed cost. That is the cost of the raw sugar after it comes to the factory in UP.

Rishab Bothra: Marketable sugar or raw sugar?

Ajay S. Shriram: No, that is the plantation white sugar after processing which would be available for sale to the customers that will be about Rs. 27.

Moderator: Next in line, we have Mr. Amol Pathare from Deutsche Bank. Please go ahead sir.

Amol Pathare: What was the level of capex incurred during FY09?

J. K. Jain: It is about Rs. 300 Crore.

Amol Pathare: This was mainly towards augmentation of the power, the Chemical businesses and Hariyali?

Amol Pathare: Could you share with us the debt numbers for the year ended March 31, 2009?

J. K. Jain: As on March 31, 2009, it was Rs. 1,900 Crore.

Amol Pathare: In terms of the subsidy receivable, there would be two components, one would be the subsidy which is to be received in cash and one for which you would have received in lieu of the subsidy receivables and bonds. What were the outstanding amounts towards these?

J. K. Jain: We had bonds of about Rs. 175 Crore.

J. K. Jain: And subsidy outstanding of about Rs. 167 – 170 Crore.

Amol Pathare: What was the total subsidy that accrued during this year?

J. K. Jain: I do not have that number right now, but broadly you can say about two-third of the subsidy out of that.

Amol Pathare: Would it go down to around half or may be lower in the current year?

J. K. Jain: I think it should go down more broadly because last year naphtha price was very high. So, it should go down more

Amol Pathare: So basically, you are saying that the subsidy amount would be in the range of 25% to 50% of Fertilizer sales this year?

J. K. Jain: Yes, it should be roughly half.

Amol Pathare: Do you plan to sell them when the yields are better?

J. K. Jain: Yes. We are liquidating them gradually as and when there is opportunity to sell them at reasonable price.

Moderator: Thank you sir. Next in line, we have Mr. Avinash Agarwal from Sundaram BNP Paribas. Over to you sir.

Avinash Agarwal: Just wanted to understand more about your hybrid seed business. Do you actually just market them or do you also produce them and have a research team for that?

J. K. Jain: In our Bioseed operation the mainstay of our operation is a very strong research base. In fact, over the past five or six years, we have strongly incubated our research program in the traditional hybrid cross breeding program with a very well-equipped research station in Hyderabad and supported by a research station in the tropical areas of Philippines, South of Philippines, and Vietnam. We have a very strong research team led by a very senior Research Director, and we also are carrying out some biotechnology program along with ICRISAT in Hyderabad. So, marketing is in fact, I would say the second link in our building up this business and it is because of the research pipeline that we have excellent products in cotton, corn, and now in paddy. Going forward, we expect to have in vegetable seeds also. So, this is a very strong program and we are strongly supporting this program going forward.

Avinash Agarwal: The gas that you are mentioning is basically for your Fertilizer plant at Kota, right?

J. K. Jain: That is right.

Avinash Agarwal: You were mentioning that the tax rate would come down from FY11 onwards. Would that be mainly because of the 80-IA benefits for your?

J. K. Jain: Yes, absolutely.

Avinash Agarwal: Why was your Agri Input turnover was lower in the consolidated than in the standalone?

J. K. Jain: See, the Agri Input also sells lot of hybrid seeds that we get from Bioseed.

Avinash Agarwal: Okay, so that is clubbed under Bioseed in the consolidated number?

J. K. Jain: In the consolidated we have included Bioseed, and it has been taken out from the Agri Input.

Avinash Agarwal: If you can give an estimate of what kind of growth we can expect in your Bioseed business for a couple of years?

Vikram S. Shriram: I think it is going to be a fairly robust growth hopefully, and we look forward to in excess of 40% to 50% per annum compounded growth.

Moderator: Thank you very much sir. Next in line, we have Mr. Aashish Upganlawar from Sharekhan Limited. Over to you sir.

Aashish Upganlawar: I can make out that about Rs. 18.86 per kg was the realization on the sugar for Q4. So, what is the current realization that you are fetching in the market?

J. K. Jain: It is about a little over Rs. 23.

Aashish Upganlawar: Okay, this is net realization that the Company is getting?

J. K. Jain: Yes.

Aashish Upganlawar: How is the trend line? I mean, is there any impact of these since there are measures taken by the government i.e. trading has been banned in the futures, etc.?

J. K. Jain: See, the prices have been running at the same level since last month or so. Prior to that, it had gone up to about Rs. 24 and Rs. 25 also. But given the overall demand-supply scenario, we expect that the prices should remain firm.

Aashish Upganlawar: How much was the cane cost for FY09 per quintal?

J. K. Jain: The SAP was Rs. 140 and the delivered was about Rs. 155.

Aashish Upganlawar: Towards the end of the season, how much had the cane cost spiked to?

J. K. Jain: We largely kept paying SAP only. We didn't increase the price except in very rare cases which was marginal.

Aashish Upganlawar: Okay. What was the sugar output of your Company for last year?

J. K. Jain: We crushed about 170 lakh quintals. Sugar production was about 15 lakh quintals.

Moderator: Thank you very much sir. Next in line, we have Mr. Prasanth from Mehta Equities. Over to you sir.

Prasanth: What was the amount generated from the selling of power to the grid this year?

J. K. Jain: The total turnover was about Rs. 89 Crore. This is excluding sugar.

Vikram S. Shriram: We are selling power from there as well as selling from Kota Complex.

Vikram S. Shriram: So, the power which is sold from the sugar business is approximately Rs. 20 Crore.

Prasanth: Okay, so the total will be around?

Vikram S. Shriram: Sugar was Rs. 26 Crore and from Kota it was around Rs. 89 Crore.

Prasanth: What are your expectations on the Fertilizer industry from the upcoming budget?

Ajay S. Shriram: Well, we do not know. I would say the most important expectation we have is that the government allots enough money to take care of the entire subsidy that they want to give to the farmer through the Fertilizer industry. Ultimately, what happens is that we are only a processing operation. Because when the cost is higher than the selling price, we have to get reimbursed. Otherwise, we will all be dead. So, I think the issue what comes in here is that we expect and hope that the government allots enough money in the Fertilizer subsidy to the farmer account.

Prasanth: Currently, in how many days are you getting it from the government?

Ajay S. Shriram: I think, after some additional grants were made, the payments are reasonably regular. They are supposed to give us payments in 60 days from end of each month which has by and large been followed.

Ajay S. Shriram: There are some old outstanding amounts because some pricing has not been approved, which may happen in the next couple of months. So, other than that, there is a reasonable current payment, but the problem typically comes in the second half of the year by which time, if the budgetary provisions have been exhausted. So, then the government starts either resorting to Fertilizer bonds as they did last year or the outstanding build up. So, that is very difficult to predict, but once we see the final allocation in the budget which is expected in July, we would have a better perspective on that.

Moderator: Thank you very much sir. Next in line, we have a follow-up question from Ms. Parul Patel from Avendus Capital. Over to you ma'am.

Parul Patel: Sir, what is the cash on the balance sheet as on March 31, 2009?

J. K. Jain: See, generally, the cash that you have is only the transactional cash. We do not try and keep any liquid cash. We try and keep the borrowing capacity in hand. So, there was no cash per se, but we had bonds of about Rs. 175 Crore which we could convert into cash at any point of time.

Parul Patel: Then this other income in your consolidated results of Rs. 23.96 Crore is with respect to?

J. K. Jain: See, there are lots of elements in that which also includes the carbon credit income that we get. Then, there are scrap sales that happens in all the factories. Then, the interest on these bonds and whatever liquid investments we do on liquid funds for short-term, which is the treasury operation, is also clubbed under other income.

Moderator: Thank you very much ma'am. The last question comes from Mr. Tarun Surana from Spa Securities. Over to you sir.

Tarun Surana: There has been a lot of volatility in the last three or four months or six months especially on the DAP and sulphur side, rock phosphate side. So what is your view on that? By when it will be stable, and when do you think that people will be comfortable in importing DAP because lot of other players also have stopped trading in DAP, MOP as you have done. But then, supplies will become a real issue.

Ajay S. Shriram: Well, fortunately, I would say that compared to the situation six months ago when say DAP prices peaked at over USD 1300 per tonne they are now they are down to about USD 340 – USD 360 per tonne and our feeling is that it will not really get too much more volatile now. The USD 1,300 was a pure aberration. Frankly speaking, from any Agricultural point of view, there is no farmer growing whatever crop who can afford this sort of pricing for Fertilizer. I think India was the only possibly one of the largest buyers, even though I know, China also last year gave a subsidy of almost Rs. 50,000 Crore equivalent. So, the good thing is DAP prices now have come down, and we expect that it will stay in the same range. Supply-demand will take its margins up and down.

Ajay S. Shriram: Similarly, if one sees urea, urea touched about USD 650, but now it is down to USD 230 - USD 250 which is a much more rational price. Ultimately, these high prices cannot sustain because the buyer has to be able to afford it. And our view in the

International Association and in India is that unless and until it is a balanced price which has a linkage with the selling price of the farmers' produce it cannot be in isolation. To a degree, it can, like it was last year because India has a different way of pricing on subsidies but many countries do not have that. So, the farmers could not afford it. So, the demand came down and now the prices have come down. So, our feeling is that the price will not get very much volatile. It will stay the same. Unfortunately, MOP price has not yet come down. They are still ranging about USD 600 plus. That is why actually the demand is coming down. India has taken a view that they won't import any MOP because the price is so high. The other two, DAP and urea have fallen and MOP should also fall. So, I think it is a matter of time and seeing how the negotiations move between the suppliers and the buyers and that price also should come to a rational level. Otherwise, consuming that will become difficult for countries like China and India. So, sulphur has again become soft. I mean, sulphur went through the roof at one time. It was at USD 800. Then, it came to virtually minus or zero and now, it is running at USD 40 to USD 50. So, we do not see sulphur going up too much either. I think this swing which was unprecedented in the Fertilizer industry, I think now it is coming to a more stable situation.

Tarun Surana: The target production for IPP beyond cut-off quantity was given as 4,17,450 tonnes as per the letter dated September by the ministry when the IPP policy was announced.

Ajay S. Shriram: No. Our capacity for Fertilizer, the normative capacity is 3,79,500 tonnes.

Tarun Surana: Yes, but cut-off for revamp was mentioned as 3,82,140.

Ajay S. Shriram: Cut-off for revamp. Okay, you are talking about the revamp schemes of the government?

Tarun Surana: Yes.

Ajay S. Shriram: We do not qualify in that scheme now.

Tarun Surana: Okay. So, you won't attract any Import parity price (IPP) as such?

Ajay S. Shriram: See, if I produce more, like I did in the month of March 2009, I produced about 14,000 tonnes more that is where for those 14,000 tonnes, my margins were dependent on the import price parity.

Tarun Surana: So, any production beyond 3,79,500 will attract that?

Ajay S. Shriram: Yes, there I will attract import price parity in the government formula of keeping 65% and 35% to us based on the prevailing IPP. So, that will be only applicable in case I decide to produce more in February-March as we had explained earlier. Otherwise, we have nothing to do with IPP

Tarun Surana: Can you give me the breakup of your bonds. What percentage of bonds you are holding right now and have you made any provisions for M-T-M on that?

J. K. Jain: All the bonds have been mark-to-market on March 31, 2009.

Tarun Surana: What is the M-T-M loss on that?

J. K. Jain: It was about Rs. 9 Crore, which we have shown separately in the results. But all of them have been mark-to-market.

Tarun Surana: And most of the bonds are 6.2% and 6.5% only?

J. K. Jain: No, there are all varieties starting from the first lot of 8.3% to the last one of 6.65%.

Tarun Surana: But haven't you sold off older bonds which had higher yields?

J. K. Jain: We have sold some. See, we were allotted about over Rs. 100 Crore in the current year and about 160 crore in the last year, out of which we are only carrying Rs. 175 Crore. We have sold some after March 31, 2009, also. So, as and when we get the opportunity to sell, we have been selling. In the meanwhile since we continue to hold these bonds, we raise funds against that which is cheaper than the normal credit.

Tarun Surana: The landed cost for gas for you is USD 6.8?

Ajay S. Shriram: Yes, about USD 6.81 or USD 6.82.

Tarun Surana: Okay and can you explain the tax provision write-back in the last quarter?

J. K. Jain: What has happened is that we have lot of power capacities, which are entitled to the benefit of 80-IA. As per institutes' guideline, the depreciation relating to these plants which reverse during holiday period, we do not have to provide deferred tax liability for that. Now, what had happened in 2008-2009 was that the High Court, there was a case going on in our case in High Court with respect to the eligibility of 80-IA benefit. So that was decided by the High Court in our favor. In view of that, we decided to recognize the 80-IA benefit in the books and create deferred tax liability accordingly.

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

Ajay S. Shriram: Thank you. Well, thank you once again to everyone for participating in our conference call. We really appreciate your time and interest to share our thoughts and get your queries all clarified. However, we have been able to do the same. In case there are any further queries, please do not hesitate to write to us. We will be happy to get back to you. As we have mentioned earlier, I think we have the strength of a variety of businesses and the focus this year on really is ensuring that we conserve money and not put into capital expenditure, but really get our operations fine tuned wherever possible. I think that is a good direction. The board feels that this is the right way to move and instead of really looking at the topline; only focusing on margins, quality of management, bottom-line growth, swing capability, and how to optimize things like getting permissions in Gujarat to sell power to the state grid or to the power trading companies, are the areas which we are going to focus this year, and we are confident that our Company is going to move in the right direction, and as all of us have indicated, we are sure that the Company's future is moving in a right way and in a bright way and our focus is going to continue on that. Thank you once again to everyone for participating in this conference call. Good bye.

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