DCM Shriram Consolidated Limited

Q4 & FY2010 - Earnings Conference Call Transcript

May 10, 2010 at 12:00 noon IST

Moderator: Ladies and gentlemen good afternoon and welcome to the DCM Shriram Consolidated Limited Q4 & FY10 Earnings Conference Call. As a reminder for the duration of this conference, all participants' 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 from Citigate Dewe Rogerson. Thank you and over to you sir.

Ishan Selarka: Thank you Melissa. Good afternoon everyone. Welcome and thank you for joining us on DSCL's Q4 and FY10 conference call. Today we have with us Mr. Ajay Shriram, Chairman and Senior 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 after which, we will have an interactive question and answer session. I would now like to invite Mr. Ajay Shriram to give us a brief overview on the company's operation for the period ending 31st March 2010. Over to you, sir.

Thank you Ishan. Good afternoon ladies and gentlemen and a very warm welcome to DCM Shriram Consolidated Ltd, Q4 and Financial Year 2010 Conference Call.

We have had a satisfying performance during FY10 given the challenging business environment for some of the businesses. Some businesses faced acute margin pressures whereas as Agri related businesses had to face erratic weather. However, our business model with multiple revenue streams and swing capability enabled us to ride these challenges in a very satisfying way. Some timely steps including commissioning of the 55 MW coal based power plant in Bharuch in September 2008, sale of power from Kota by lowering production of Chloro-Vinyl products from October/November 2008, converting the urea plant to dual feed (gas and naphtha), etc. have helped us tremendously during the challenging times. We have also taken steps to conserve cash and strengthen our balance sheet which has enabled sharp reduction in our financial charges for FY2010.

Let me now briefly touch on some of the key developments during the year. The fertilizer plant operated on natural gas instead of naphtha from May 2009 onwards. This has major positive effects which includes reduction in feedstock and consequently reduced subsidy accruals by approximately Rs. 320 crores. Higher energy saving has boosted our earnings and reduction in working capital has resulted in lower borrowings. The government seems to have recognized the long outstanding problems of the industry and has taken steps to address some of them. The subsidy payments have been regular and fully in cash. The revised prices under NPS III which are effective from October 2007 have been notified and steps have also been initiated for finalizing the parameters for NPS IV. The company got a onetime benefit relating to earlier years amounting to Rs. 14.2 crores consequent to notifications of NPS III and finalization of compensation for addition production in the FY2009. We were also able to produce about 4000 tons over the base production in spite undertaking maintenance turnaround of 25 days during the year.

The agri-input business which is aimed at providing high quality package of agri inputs to farmers through our extensive rural distribution network had tough business conditions due to the erratic monsoon during the year. It could still register reasonable growth in turnover in spite of decline in SSP turnover consequent to reduction in subsidy In line with reduction in raw material costs amounting to approximately Rs. 65 crores. The government's decision to declare the final subsidy parameters for DAP and MOP before the start of the season is a positive step and has enabled the industry including us to restart the import and trading activity of DAP/MOP in the year 2010-11. We have contracted about 105,000 tons of DAP and 38,000 tons of MOP for this year so far.

Bio-seed recorded good growth in India helped by very good response to its cotton and vegetable seeds, though it did face a tough situation in some products due to the erratic monsoons. This year both Philippines and Vietnam also had unfavorable climatic conditions, thereby resulting in lower earnings. We have launched some new products in both these countries including GM Corn in Philippines under a tie up with Monsanto. We are therefore confident of recording good growth in the coming year in all the territories that we operate in. Overall a healthy growth in India enabled us to register good growth in this business in FY2010.

Sugar as you all know had a very volatile Q4 with prices reaching highs of Rs. 42 per kg in January-February 2010 and then declining to Rs. 28 per kg in March-April 2010. Globally also, after touching a high of USD 800 per ton, prices have fallen below USD 500 owing to an expectation of over supply of sugar in the next season. The cane prices on the other hand moved up to approximately Rs. 230 per quintal from about Rs. 140 per quintal in the last season. In view of expected lower production for the season, the government raised the levy obligation from 10% to 20% while the levy sugar at Rs. 13.3 per kg has been kept unchanged now for more than 5 years. Levy sugar thus led to a loss of Rs. 64.6 crores in FY2010 compared to Rs. 12.7 crores last year. Lower sales volume and decline in byproduct prices have also muted earnings from the business. Our operations during the sugar season 2009-10 were better than last year with sugar production increasing by 32% due to higher cane crush and better recoveries. Earnings were helped by higher power profits due to better realizations and a longer crushing season. The area under cane has gone up by about 30% which can lead to cane availabity going up by about 35%-40% in case of normal monsoon this year. As of now, the sugar availability situation globally and in India looks very comfortable and the season 2010-11 also looks promising. The key to 2010-11 performance therefore will depend on how soon the government recalibrates its policy response to the new situation. The industry does need a sugar price of minimum Rs. 34 to 35 per kg to recover its cost and ensure that it remains in a position to provide reasonable returns to farmers in the coming season.

Hariyali Kisan Bazaar recorded growth across all its verticals. The growth in core retail business was slower than our plan, partly because of the effect of negative agricultural growth in the country on the rural spend in general and partly because of slower customer acquisition by Hariyali. The other businesses which include fuel, commodity trading, variety seeds production and milk collection performed better and continue to register robust growth. We have taken several steps with the help of outside experts wherever required to further strengthen our core retail business based on more intensive customer feedbacks. This includes strengthening our value proposition to make it more relevant to the rural consumers and align the offerings with this core value proposition. All processes and systems are being strengthened to ensure availability of right goods at the right place at the right time and to economize on all costs. With the help of TCS, the IT systems have been strengthened to provide support to all aspects of operations of the business. Some of the outlets which did not show good potential are being shut down to concentrate efforts on the more attractive ones. We remain convinced and committed about the strong and attractive potential of this business and are confident that the steps taken by us should lead to better financial performance of this business in the next 9-10 months.

The Chloro-Vinyl businesses was adversely effected by sharply lower Chlor-Alkali prices. The Chlor-Alkali prices have seen some improvement from March-April 2010. The impact of low prices of downstream products has been mitigated partly through cost savings by shift from furnace oil to coal based power generation along with 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 as the margins in power sale were higher. This was a strategic decision that has paid off well.

The cement business is recording good margins with favorable market conditions. The strong demand growth should continue to provide support to this business.

Fenesta with its diverse customer base has become a market leader on a pan-India basis. The product is gaining acceptability across the nation with the brand becoming synonymous with high quality PVC windows. The Fenesta business during the year, especially in the last two quarters, has seen a good demand for the product from the retail segment while witnessing an initial pickup in the institution segment. Orders of Fenesta stood at 155,297 windows as on March 31st 2010 which includes approximately 49,000 windows booked during the Q4 FY2010. We expect this business to grow rapidly with signs of recovery in the real estate sector. Also, we believe that our first mover advantage, technology edge, superior designs, suitable for Indian conditions and greater acceptability will enable it to be a significant value driver for us in the coming quarters.

We are encouraged by our Bioseed and Fenesta businesses entering the phase of high profit growth and the benefits of swing capability in our Chloro-Vinyl businesses. The success of the ongoing efforts in Hariyali Kisan Bazaar business and our strong balance sheet will help us in creating steady value going forward.

Now I will request Rajiv to take you through the financial numbers for Q4 and FY2010. Thank you.

Rajiv Sinha: Thank you sir. Good afternoon, ladies and gentlemen. I will now summarize the financial results for the quarter and the year ended March 31st, 2010.

Total revenues for the year stood flat at Rs. 3,523 crores primarily due to reduction in fertilizer and agri inputs turnover by approximately Rs. 320 crores and Rs. 65 crores respectively in FY10 due to reduction in subsidy component consequent to the reduction in feedstock/ raw material cost, which are pass through. The increase in power sales by reducing production of PVC and Chlor-Alkali products in view of the lower prices of these products while provided support in net earnings but also led to lower overall turnover. These reductions in turnover, however, did not have any adverse effect on the overall profits.

The revenues for the quarter were higher by 17.5% at Rs. 854.55 crores due to increase in revenues of sugar, Hariyali Kisan Bazaar and Fenesta. EBITDA for the year stood at Rs. 367.57 crores as against Rs. 400.29 crores in the corresponding period last year. This was largely as a result of decline in earnings in the sugar business due to high loss relating to levy sugar, increased losses in the Hariyali business and impact of lower realizations of Chloro-Vinyl products. However, this was partly mitigated by better earnings from fertilizer, cement, Fenesta businesses and better returns from sale of power.

The interest cost at Rs. 88.56 crores in FY2010 has recorded sharp reduction vis-à-vis Rs. 150.43 crores last year. This was a resultant to reduction of approximately Rs. 600 crores in the overall borrowings as well lower interest rates. PAT for the year stood lower at Rs. 84.25 crores compared to Rs. 122.61 crores last year, however in the previous year, the company had taken a credit of Rs. 55 crores on account of deferred tax relating to 80 IA operations. On comparable basis, our PAT has, in fact, grown by about 25%.

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

The revenues from the fertilizer business for the quarter and the year were lower at Rs. 132.5 crores and Rs. 479 crores respectively on account of change in feedstock to 100% gas compared to high cost naphtha. The impact of change of feedstock to 100% gas for the year was approximately Rs. 320 crores for the full year. This however does not have any impact on the earnings and is a pass through cost. The earnings from the fertilizer business were higher at Rs. 15.6 crores and Rs. 44.6 crores for the quarter and the year respectively partly due to one time gain of Rs. 14.2 crores relating to earlier periods consequent to notification of prices under NPS III and the compensation for additional production of urea in 2008-09. Revenues from agri input businesses for the quarter stood lower at Rs. 63.6 crores due to reduced sales of SSP as policy was under modification, while earnings were higher at Rs. 5.2 crores essentially due to higher sale of value added products. The yearly numbers of turnover of Rs. 406.75 crores and EBIT of Rs. 20.43 crores are fairly satisfactory keeping in view the challenges the business faced in terms of erratic monsoon conditions and one of the worst droughts.

Our bioseed operations registered higher revenues for the year at Rs. 202.5 crores up by 29% primarily driven by the demand for cotton hybrids of the Indian seeds operations. Earnings were lower at Rs. 28.4 crores as a result of lower contribution from our operations in Vietnam and Philippines which were hurt because of unfavorable climatic conditions and hence lower demand. We continue to make high investments in research.

Sugar business reported higher revenues during the quarter at Rs. 208.6 crores as against Rs. 112.5 crores last year on account of higher sales volumes at 5.38 lakh quintals compared to 4.54 lakh quintals last year. The earnings were under pressure due to impact of increase in levy quota from 10% to 20% at prices which are significantly lower than the cost of production and the drop in the product prices. Power sales helped in partially mitigating losses. For the year revenues were higher at Rs. 733.52 crores and EBIT lower at Rs. 42.49 crores. The loss on levy sugar was Rs. 64.6 crores during the year compared to Rs. 12.7 crores last year.

In Hariyali Kisan Bazaar, revenues increased to Rs. 158.49 crores and Rs. 630.02 crores during the quarter and the year under review respectively. This growth is mainly attributed to traction in our seeds and commodity trading businesses and new outlets which were opened in FY2008-2009. The losses in these businesses at Rs. 81.17 crores were higher compared to Rs. 64.59 crores last year primarily because of slower growth in turnover.

Chloro-Vinyl business revenues were lower at Rs. 184.02 crores this quarter compared to Rs. 213.70 crores same period previous year due to sharp drop in Chlor-Alkali prices and lower production of Chloro-Vinyl products as we diverted more power to market sale in accordance with relative profitability. The earnings dipped to Rs. 31.53 crores as compared to Rs. 62.42 crores during the quarter due to sharp dip in Chlor-Alkali prices by 35% quarter on quarter and higher coal cost during this quarter.

Revenues and EBIT in the cement business were higher at Rs. 134.65 crores in FY2010 up by about 5.1% and Rs. 37.22 crores up by about 46.1% respectively for year on the back of better realizations by 11.1%. However, for the quarter the revenues were marginally lower at Rs. 34.88 crores from the same period last year.

Revenues under other segment grew by 30% and 23% to Rs. 87.1 crores and Rs. 329.4 crores in the quarter and the year under review respectively. The healthy performance was aided by improved results in

Fenesta. The Fenesta business witnessed a revenue growth of about 39% in the current quarter as compared to the last year. The retail demand for the product has been strong while an initial pick up in institutional demand is also visible. These on a broad level are our financial numbers.

We would 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 Tarun Surana from Sunidhi Securities. Please go ahead.

Tarun Surana: I just wanted to understand the energy efficiency in your fertilizer business now, post gas implementation?

Rajiv Sinha: See under the NPS III, we were fixed a norm of 7.84 Gillion kilo calories per ton of urea. That norm remains. After conversion of gas, we have been able to actually reduce the actual consumption and we have been operating at a lower level and that is the benefit which is adding to our bottom line.

Tarun Surana: From 7.84, what would it be now?

Rajiv Sinha: I think it varies from time to time, but I would say roughly under 7.5.

Tarun Surana: So is there any further scope to reduce this or 7.5 is something which will remain even after 100% gas utilization?

Rajiv Sinha: You see in our case, we use two forms of energy. Two-thirds of the energy is coming from gas and one-third is coming from coal. Now coal has a much lower cost of energy, but adds up to the caloric total energy consumption. So long as we continue to use coal, our energy numbers would remain higher in terms of numerical values, but the total cost of energy, we are competitive. So as we see it, as long as we continue to operate on this mix, these numbers will be relatively on the higher side.

Tarun Surana: Even now two-third is gas and one-third is coal?

Rajiv Sinha: That's right.

Tarun Surana: And earlier this two-third comprised of gas and naphtha.

Rajiv Sinha: No, it was only naphtha.

Tarun Surana: Now it is gas plus coal?

Rajiv Sinha: That's right.

Tarun Surana: On Hariyali Kisaan Bazaar, how many stores would be unviable and are up for closing down?

Ajay Shriram: On Hariyali, we reached a peak of 308 outlets, out of that 16 have already been closed and another 17 are under closure and that should be completed within the next one month. So we will have totally 33 outlets which will be closed down.

Tarun Surana: Are these old outlets and have you tried everything…

Ajay Shriram: It's combination of old and new. I think it depends a lot on the issues of sales we have physically seen, the response to these outlets, the location of these outlets, the competition around these outlets, all these parameters. There are about 7 or 8 different parameters because this is a very detailed exercise to actually take a decision to close the outlets because actually the rural India has a tremendous potential going forward, but we felt that it's better to close some outlets which consistently or based on our judgment are not being able to give us the desired results and focus on the outlets where we are getting the desired results and where the potential is better.

Tarun Surana: So is there any cost that will be taken directly into some particular quarter, next quarter? How would the accounting be and what would be effective potential loss from closing down these units?

Ajay Shriram: I think the potential loss is very small, because these are all rented properties, the material has all gone back to the distribution centers and they are being redistributed to other outlets. So it is the logistics to some degree plus what furniture fittings and all we have, which we are keeping all that for using in the future when we start putting up new outlet again.

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

Srinath V: The last time we spoke, out of the 300 outlets, about 20% of them is store level profitable. Now with these 33 outlets also being closed, where do you see this number say one year down the line?

Well I think based on the studies we have undertaken and the efforts we are putting in, we see a substantial jump in the number of outlets which will become breakeven or profitable, definitely that is the base. We have actually done a center-by-center wise and store-by-store wise study of each of the outlets to take a decision because closing as I said was not too easy, but we did feel that the 33 outlets should be closed down and let's focus on the others. So we see a substantial jump, but it's difficult to give a number right now, but based on our study, we see a substantial jump in the number of outlets which will be breakeven or profitable. On an overall basis, two things are happening; one is the sales per outlet is also increasing. If you notice last year, we did not add any outlets, but our sales did go up from Rs. 419 crores to about Rs. 630 crores. So our approach to grow the outlets is not necessarily by new numbers, but also by getting more sales, more footfall, more promotional activities and higher turnover per outlet. So we think that’s a very positive direction which is actually helping us consolidate better.

Srinath V: On Hariyali, what part of these losses are real cash losses and what part of these losses are coming out of depreciation? Can you give us a rough view say on Rs. 80 crores, a percentage, what part of this was a cash loss?

J.K. Jain: See the PBDIT will be the major chunk; depreciation in this business is very small. I can't give you the breakup right now, but it's largely the cash loss. Depreciation will be very small on this.

Srinath V: So this coming financial year, our focus will not be to open new stores, but will be more to bring these stores profitability and increase same store sales, am I getting it right?

Ajay Shriram: Absolutely, we are in fact aggressively focusing in this direction and in the last month or two, we are seeing better results. Of course there is a little bit of monsoon, but the prediction of monsoon also seems to be good. And we are moving concretely in this direction of not looking at opening new ones like we did in two years, 2007-2009, but moving in the direction of optimizing each of these outlets in sales per sq. foot, profitability per sq. foot, sale turnover per individual etc., etc..

Srinath V: What is the exact timeline that we look at in terms of individual stores to decide how this store is panning out as such, do we want to keep them or do we want to shelve them, when will they turn profitable, what is the approximate timeline for operating profits?

Ajay Shriram: Generally, what we have taken is a timeline between two to three years, but I think that many other parameters also play a role in determining when exactly, because the judgment has to be taken not only on the sales andt the bottom line at that particular time, but also the potential, the growth, the urbanization which is happening, because we are finding some of our outlets which three years ago were absolutely rural, now there you know Tier IV cities are coming within a couple of kilometers of the outlets. So there is this change happening there also and as you are aware, we have got 83 outlets which are owned by us which are between 2-4 acres of land. We have another 16 or 17 outlets of land which we have to put up more centers which we will do in due course of time. So we have almost 100 pieces of land of between 2-4 acres. So we don’t move only on the sales, many parameters which are going to determine whether we take the decision to run it or close it as a first exercise now and we think that this is a fairly complete exercise. The decision for 33 outlets has been taken in the last two months and action has been taken on that.

Srinath V: On the debt to equity, I was just looking in the long term historic, at all time lows, so do we see the risk profile of the company in terms of debt to equity reducing with this trend being similar going forward?

Ajay Shriram: As we mentioned in the chairman’s speech, it was a conscious decision to conserve cash looking at the uncertainty. We don’t want the debt-equity to go up in the coming period, but we don’t expect it to go down either substantially. It will remain broadly at the same level. I will just add that, in the coming year the company has budgeted a capital investment of about Rs. 105 crores. The breakup for this would be Rs. 40-45 crores for the normal CAPEX which we do in all the plants and another about Rs. 60 crores for various other de-bottlenecking and growth, our lignite project which we are working on in Rajasthan etc. So over Rs. 100 crores CAPEX will happen this year.

Srinath V: Will the seeds business get merged for the next financial year?

Ajay Shriram: That's right, I think this merger will be effective from 1st April 2009, this merger required the procedure of having the court chaired AGM and EGM etc., etc., which have already been held and now I think because court is going to go into their holiday period, summer recess, so we are expecting that in July this process should be over.

Srinath V: What are our plans for this business (Seeds), for the coming year?

Ajay Shriram: In this year, we expect the business to grow healthily at about 35%-40% across the board. We have got a fairly a robust range of products in the pipeline. As was mentioned, our investment in R&D has been fairly good over the last few years and that's a continuing exercise. We are looking at that very actively because we think that having a strong R&D base is the key to success of this business down the line.

Moderator: Thank you. The next question is from the line of Nirav Vasa from Gupta Equities. Please go ahead.

Nirav Vasa: My question pertains to your sugar business. In last year, the levy quota was increased from 10% to 20% and to the best of my knowledge, the increase in this levy quota was only for one year, because last year, there was acute shortage of sugar in the country. So do you expect any changes in the levy quota in the crushing season that would start from the month of October?

Ajay Shriram: Yes we do, in fact this is an issue which the sugar industry has taken very actively with the agriculture minister that with the estimated production last year of only 14-15 million tons, the requirement for levy based on a production of 25 or 26 million tons is about 10%, so that's why this 10 became 20%. But this is actively on with the government and we are very hopeful that the government will revert to 10% because it was in agreement for one year only.

Nirav Vasa: You do not have any distillery, but considering the fact that now government is planning to aggressively take up 5% ethanol blending program, so that has created some kind of euphoria in the industry, do you intend to install a distillery going forward?

Ajay Shriram: We have studied this about even a year or two ago and we have the blueprint and the plans on putting up a distillery. We will take the decision at an appropriate time. We feel that there is still little bit of tubs and pools between the Petroleum Ministry and the Chemical Ministry and the ministers involved etc. But we also look at it this way that, once the sugar industry has a little sounder footing, it will be a good direction to take. So distillery is something which is on the agenda, we have to take a decision on the timing. But we feel that if we were to prioritize our investment of money, maybe a quicker return right now would be augmenting our power export capability, so we are studying all these options for our sugar business to actually give it three legs, one is sugar based, bagasse based, molasses based, so we are seeing how we can augment all three and we will appropriately decide on priority of investments.

Nirav Vasa: What was the realization for molasses that you had for this quarter?

Ajit Shriram: It should be in the range of Rs. 200-250 per quintal.

Moderator: Thank you. The next question is from the line of Rishab Bothra from B&K Securities. Please go ahead.

Rishab Bothra: How are we moving ahead in our Chloro-Vinyl business segment, because most of the revenue and profitability is from power sales? Is the product sale picking up because industrial production has been revising? So what kind of forward looking statement do we have in that segment?

Ajay Shriram: Well I put it this way, Chlor-Alkali it is a commodity and we are positioned as 750 tons a day which gives us tremendous economies of scale. In the last quarter as we mentioned the prices have been low, but the good thing is the prices are picking up now and our estimate is going down the line, there will be a pickup in the prices of Chlor-Alkali products, but we have this flexibility of deciding that do we want to increase production of caustic soda chlorine or do we want to increase sale of power, and the way we look at it is we net back the realization to the company per unit of power and then we take a decision, of course considering that our trade and customers are not left high and dry. So we have taken decisions to continue some production or maybe move some material from Gujarat to North India to satisfy our customers in trade, we don't want to just go out to market totally. But I think the last quarter has seen the prices moving up a little bit and we do hope this trend will continue.

Rishab Bothra: In the sugar space, what kind of cane costing do you expect for next year considering the amount of cane plantation and speculation that the sugar production will be in the range of 23-26 million tons. So would it be closer to Rs. 170-180 levels or is it still higher than that?

Ajay Shriram: See it's difficult to say, because you are aware that sugarcane pricing is something where the center is involved, the state is involved and the court is involved. All three are in the game at the moment. But the general feeling in industry is it will be lower than what we paid last year, because the last year the sugar prices jumped up abnormally high on this fear of very low production base. But it's difficult to give a price at the moment of what the sugarcane price will be. But I think the issue which industry has taken very actively and has been sharing this, fundamental principle for the sugarcane industry with all segments of people is that there must be a linkage between the sugarcane price and the sugar price. If both move in a divorced manner, one or the other will suffer and we have seen that in the last 30 years of having a controlled sugar industry where ever 4-5 years we have peaks and troughs. The farmer loses, the industry loses and the consumer loses. So unless there is some rationality, it's going to create a problem. So industry is also moving very actively with the government and trying to convince them that look at it on a long term basis and not a year to year basis.

Rishab Bothra: Sir, but the levy price was also to be increased, but the government is not paying it to the industry, they increased the levy percentage but prices were kept at Rs. 13. Again similarly, FRP was announced and the differential payment was to be made by the state government, which state government opposed. Could you provide some clarity on the levy prices, when they would increase and who will be paying the differential, the millers or the state government?

Ajay Shriram: Well Rishab, as of now, unfortunately, the industry has taken very actively with the government that you had committed to increase the levy price based on the Supreme Court orders as well as the FRP. We are moving very actively with the government on that and we hope it will happen soon.

Rishab Bothra: And Supreme Court orders regarding 06-07 and 07-08…?

Ajay Shriram: That has still not come up yet, it's still in the court and there is no judgment on that.

Rishab Bothra: Have we closed on any centers in the HKB or it's only the stores closing?

Ajay Shriram: Only stores.

Rishab Bothra: When can we have the segmental breakup of Hariyali stores and whether it's FMCG products or garments or industrial material or fertilizer?

J.K.Jain: That segment breakup is not required from an accounting point of view because all those businesses are related; it's very difficult to identify the profits for each of those segments in the reportable manner.

Rishab Bothra: But if we want to have a separate entity, I believe investor would be happy if they would be knowing which segment is growing at what return, what's kind of profitability is there, in order to have better clarity?

J.K.Jain: Yes. But for now it is part of the same entities.

Ajay Shriram: Yes. But I think down the line would be valid. I appreciate your point.

Rishab Bothra: I mean in newsletter and not in the reporting results.

Ajay Shriram: If you look at that I think as I have mentioned that we are taking aggressive steps to give a more focus value proposition customer acquisition, distribution network, logistics, promotion, etc., etc., as well as the selection of the entire offerings on each, whether it's lifestyle, whether household, whether staple foods, FMCG. Of course agri is the main area in any case where we have added many products. So I think once we develop down the line, we look at that also.

Rishab Bothra: So by most like 3-4 quarters or…?

Ajay Shriram: I will be honest with you, it's difficult to say right now, but let's see how it moves, but we have taken note of your point, it makes sense, we will see what best we can do.

Rishab Bothra: In fertilizer segment, do we produce excess than our capacity?

Ajay Shriram: Last year we did, we produced 4000 tons more than what is our rated capacity, this year also we want to do more and we expect, we should do more than our rated capacity this year also.

Rishab Bothra: What kind of imported quantity do we intend to have for DAP and MOP?

Ajay Shriram: DAP this year we booked as of now 105,000 tons, three ships. And MOP is about one ship, 38,000 tons.

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

Avinash Agarwal: What is your cost of power right now using coal?

Ajay Shriram: You know it varies. We get coal today from linkage coal as well as by road, because the linkage is not fully met and it varies between Kota different, Bharuch is also different, but the range is about Rs. 3.

Avinash Agarwal: What would be the kind of the mix-up between imported and linkage coal today?

Ajay Shriram: Imported, we are basically using 100% imported coal in our Gujarat unit in Bharuch, where the requirement is about 400,000 tons a year because we find that's the most economical. For Kota where we use almost a million tons a year of coal, it's basically about 70% linkage and 30% we use either by road or imported depending what the sources are and depending on what is the cheapest delivered cost to us per thousand kilo calories.

Avinash Agarwal: On your sugar side, at what price have you valued inventories or the levy portion?

J.K. Jain: Levy portion we have valued at Rs. 13.30. As far as free is concerned, that information we don't share, it's confidential actually.

Avinash Agarwal: What is your policy in terms of R&D spending on seeds? Is this a type of percentage of revenues or is this an absolute amount that you want to spend every year?

Ajay Shriram: It's actually two, I think we make out aggressive plan of where we think the investments are required and if you take the last two years, it actually varies; it's not really linked one or the other. I think this is purely a need based investment plan and we are aggressively moving with that as we have mentioned that besides Philippines, Vietnam, and India, our own R&D center, we also have an outlet in ICRISAT in Hyderabad where we have leased space, we are doing R&D there also. We are expanding further either in a new building or new setup; we are discussing what to do. But I think it's not really linked either turnover or as a fixed amount, it depends on need to need basis as you are going down, what is the requirement, we will do about 2-3 year budgeting on that and we will just decide what to be done, because in our assessment, having a strong pipeline of products is the key for success in the seeds business. And we must cater to that not only for India, but for Philippines, Vietnam. Now we are also present in Thailand and are looking at South China, Indonesia. So in all that we are looking at strong R&D base which is the key.

Avinash Agarwal: But just to get an idea, approximately what would be the R&D cost as a percentage of sale?

Ajay Shriram: About 10%-12%.

Moderator: Thank you. The next question is from the line of Abhishek Soni from Canara Robeco Mutual Fund. Please go ahead.

Abhishek Soni: What is the overall borrowing of the company and its breakup into the short term and long term?

J J.K.Jain: As on 31st March 10, it was about Rs. 1400 crores comprising of Rs. 1050 long term and balance short term.

Moderator: Thank you. The next question is from the line of Rahul Soni from SKS Capital & Research. Please go ahead.

Rahul Soni: Can you put some light on your Rajasthan lignite mine project?

Ajay Shriram: This is a lease which we got about two years ago from the Rajasthan government then from the center, which we have already used at a Kota complex; lignite if you are able to mine it and use it as Kota it will reduce our cost. So we have started moving on this project actively and we expect by about January 2012 that we will start getting lignite and then we plan to move it to Kota. We will continue at Kota with our 70% linkage plus instead of getting by road from other sources, we will get it from our own lignite mine. So this should help us in reducing our cost of production.

Rahul Soni: So, can you quantify it? How much cost of production will get in after the operation of this mine?

Rajiv Sinha: See this will partly replace the coal, as our chairman just said, we consume close to a million tons of coal in Kota, so it will replace maybe about 30% and I think we should be able to save a fairly good amount of money. It's difficult to project that because by the time this material starts coming in, the coal prices would have changed again. So it will depend on that point of time what is the differential because the cost of mining will only go up based on the labor cost and diesel cost, whereas coal prices have already started showing movement up. So a lot will depend on what the coal prices would be to show a saving, but it is a significant amount of saving.

Moderator: Thank you. 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 ladies and gentlemen for being with us and attending this conference call for the year. If you still have any further queries, please do not hesitate to get in touch with us. As mentioned during the call, we do have a sound business model and are constantly innovating; selling power being one of them, plus the focus on Hariyali is very strong and we are confident that it will show positive results down the line. We believe that we have businesses which are going to create value going forward. Thank you once again for being with us today. Good Bye.

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