DCM Shriram Consolidated Limited
Q2 & H1 Earnings Conference Call, Financial Year 2009
November 06, 2008

Moderator: Good evening ladies and gentlemen. I am the moderator for this conference. Welcome to DCM Shriram Consolidated Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Ishan Selarka from Citigate Dewe Rogerson. Thank you and over to you Sir.

Citigate: Thank you. Good evening ladies and gentlemen and welcome to DSCL's Q2 and H1 FY09 conference call. Thank you for joining us on this 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; 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 conference call invite sent to you. 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 of the Company's operations in the quarter under review. Over to you Sir.

Ajay S. Shriram: Thank you Ishan. Good afternoon ladies and gentlemen and a very warm welcome to all of you to DSCL's Q2 and H1 FY2009 investor conference call. Let me begin by stating that we are happy to report healthy operational progress across all our businesses. Our multi dimensional business portfolio has helped mitigate the pressures faced by some businesses in the quarter under review. The Company recorded a sharp rise in total revenue from Rs. 601 Crore in the corresponding quarter last year to Rs. 966 Crore this year. Operating profit grew from Rs. 30 Crore to Rs. 76 Crore, an increase of around 150% and PBT before exceptional items turned into a profit of Rs. 9 Crore vis-à-vis a loss of Rs. 23 Crore in the comparable quarter last year. The profit growth was led by turnaround of the Sugar business from a high loss to marginal profits, volume and margin growth in Agri inputs trading business, and a turnaround of our Fenesta business into PBDIT positive.

Our new businesses continued to progress as per plan; Hariyali Kisaan Bazaar business as you know is setting up 'Rural Business Centers', providing one stop solutions to the needs of the rural citizen. It is now present in 8 states with 210 outlets. We plan to expand the number of outlets to approximately 300 by the end of the financial year 2009. The new categories of family goods i.e. apparel and lifestyle items, household and grocery items and financial services are getting encouraging responses from the rural customers. We are also starting pilots on milk collection and fruits & vegetable, at selected outlets. The business continues to record very encouraging volume growth backed by overall income growth in rural areas.

In the Fenesta Building Systems division, we have altered our strategy and it is working well. The UPVC windows and doors business is finding wider customer acceptance given the retail thrust which is reflected in our revenues that have increased by about 66% over the same quarter last year. This business turned PBDIT positive and we expect it to deliver even better results going forward. The Company's strategy to enhance focus on retail sales has led to higher demands and has provided a cushion against softening institutional segments. The Company has set up a network of 42 dealers in 11 cities across India. The order booking during the quarter were about 55,000 windows and the outstanding order book as on 30th September 2008 stands at 1.6 lakh windows. The product has shown encouraging levels of acceptance and once it reaches the critical operating size, we expect it to generate healthy returns in the future.

The Sugar business witnessed improvement in prices of Sugar and by-products during the quarter. The Company also sold higher volumes led by liquidation of buffer stock and higher releases. The challenges in this business still continued in the form of uncertain and unclear scenario with respect to cane prices. This is causing stress on the cane availability in the coming season. On the other hand, we expect Sugar prices and by-product prices to remain firm in view of lower production in the Sugar season 08-09. To add to this, the expansion of our Co-gen power capacity from 70.5 MW to 94.5 MW leading to an exportable surplus of about 51.5 MW is progressing as per plan and will be operational in the forthcoming Sugar season.

The Agri Input Trading business provides high quality Agri products like hybrid seed, pesticides, SSP, Fertilizers, micronutrients, etc. to the farmers. This business has made good progress. We have restructured our product portfolio to focus on high value-added, high margin, and limited government subsidy-dependent products. The business has recorded good volume growth and healthy operating margins. We expect this to be a steady contributor to our profits going forward.

On the Chloro-Vinyl side, our focus continues to be on improving cost competitiveness through economies of scale and various cost side initiatives. The 48 MW coal-based power plant at our Bharuch facility is complete. We are currently stabilizing this coal-based power plant. Once stabilized, this power plant will enable us to derive substantial cost economies and increase production of Caustic Soda from 200 TPD to 360 TPD immediately and to 440 TPD by March 2009. We are also progressing on our initiative to build fuel security, which is expected to commercialize in the next few year. The swing capability in our operations, particularly at Kota is helping us during the current phase of soft prices of PVC and Chloro-Vinyl. We are selling more Calcium Carbide and also making opportunistic sale of power to the grid and through the Indian Energy Exchange.

To sum up, we are satisfied with our operating results, especially given the external environment. Some of our businesses are adversely affected with the downturn; nonetheless, our operating performance over last few quarters has remained robust. We are now moving ahead with a well strategized plan to further strengthen our business through backward and forward integration and develop new growth drivers for the Company through Hariyali, Fenesta, hybrid seeds, and Agri inputs.

I will now request Vikram to take you through the financial numbers for Q2 FY09. Thank you.

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

Our net revenue grew by about 61% to Rs. 966 Crore compared to Rs. 601 Crore in the corresponding quarter last year. The higher revenue was driven by a 42% increase in turnover of our own products. Also aiding significant top line growths were the businesses of Hariyali Kisaan Bazaar which posted growth of 126% and Agri Input Trading business which grew by ≈ 200%. The growth in turnover of own products was led by higher volumes and realizations in almost all our businesses, particularly in Sugar (showing a growth of ≈ 84%) and Fenesta (showing a growth of ≈ 66%).

EBITDA improved to Rs. 76 Crore, up 150% as compared to Rs. 30 Crore in the corresponding quarter last year. The EBITDA growth was led by a turnaround in Sugar, Agri Input Trading, and Fenesta businesses which had negative EBITDA last year. Both the volume growth and better margins helped in this turnaround. Fertilizer business reported steady profits with higher production. Difficulty in securing supplies of LNG, however, did affect the margins vis-à-vis Q1 FY09. The Chloro-Vinyl business faced margin pressures due to rising input costs, particularly carbon material and fuel. Higher product prices, however, enabled to mitigate most of the cost increases.

Hariyali Kisaan Bazaar posted higher negative earning which is in line with our plans to invest and grow this business and develop it as a future value driver for the Company.

The financial charges including the hedging cost for foreign exchange liabilities registered sharp jump due to higher interest rates and increase in borrowings. However, with all our major projects complete, we expect the economic benefits of the project to start accruing from Q3 FY09 onwards. Better Fertilizer subsidy payments and lower sugar stocks will also help in reducing the overall outstanding borrowings.

The net profit for the quarter was at Rs. 7.12 Crore vis-à-vis a loss of Rs. 19.16 Crore without exceptional items in the same period last year. The multiple revenue streams did enable us to record better overall margins and substantial increase in operating profits highlighting the inherent strength of the business model. On an overall basis, we are happy with our performance.

Our Chloro-Vinyl businesses are showing stress on margins, however, the swing capability to sell more Carbide and Power will provide an important cushion and stability to our earnings going forward. With that, I would like to conclude. Thank you once again for joining us on this conference call. We will be happy to answer any questions that you may have.

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. Sachin Kasera from PINC Research. Please go ahead.

Sachin Kasera: Sir, my question is basically on the high debt-equity ratio of the Company and the huge interest payments that we are making. Actually, if you see, almost 50% of the operating profit is going towards interest payments. So, don't you think the Company has to be a little more aggressive in terms of the leverage and the things are going to be really difficult considering the type of environment we are seeing on the interest rate front?

J. K. Jain: The borrowing was a little high primarily because of the expansion programs which were completed by September. Now, what we are seeing is, yes, the interest cost were high, but after completion of projects, the operating benefits will start clicking in the Q3 FY09 & Q4 FY09 onwards. The second part, the borrowings were high because we had partly, in anticipation, delayed the sale of Sugar, so the Sugar stock during the start of the quarter was high. We liquidated substantial Sugar stock during Q2 FY09 and more will be sold during Q3 FY09, so that will bring down the overall short-term outstanding. Also the subsidy scenario was much worse during Q2 FY09 and with Naphtha price going down, we are seeing our subsidy outstanding to be lower during Q3 FY09 and Q4 FY09 which will reduce the outstanding.

On the leverage that you are talking about, if you just see the long-term borrowings to the net worth, we are pretty okay, it is less than 1 which we are comfortable with. The borrowings were high primarily on shorter term which will get taken care of once the Sugar stocks and subsidy is at a reasonable level.

Sachin Kasera: Sir, if you look at the half yearly numbers, the PBIT is close to around Rs. 80 Crore and the interest payment is Rs. 61 Crore. So, looks like actually the Company is working for the bankers, it is only the bankers who are making money from the Company.

J. K. Jain: Which is true, the PBIT is low because the benefits of the projects will start coming in from Q3 FY09 and Q4 FY09 and the Sugar sales will also be higher because Sugar profit gets booked when you actually sell.

Sachin Kasera: But if you look in terms of the CAPEX, in the last two years the gross block has almost doubled. If you look at the capital employed two years back, the balance sheet size was close to around Rs. 1,500 Crore. We are already at Rs. 3,000 Crore currently. We have already doubled the balance sheet size without any major significant benefits to the operating profits of the Company. The performance has not improved at all. In fact, if we see the last 6 or 7 quarters, the performance has seen a steady decline despite the gross block almost doubling.

J. K. Jain: No, I think you need to factor in couple of things here. One, we are saying that Hariyali is one business where we are making investments and Fenesta was the other, during the last two years. As our CMD mentioned in his opening remarks, Fenesta has already turned PBDIT positive, and Hariyali will peak out this year or at the most early next year in terms of losses. So, that part of capital employed will give returns in due course of time though it is not giving returns during this period. The other business which has led to increase in capital employed is Sugar which in the last two years has been going through a particular cycle which meant higher stock and therefore higher balance sheet size. But all of us are seeing that the cycle is turning now, therefore the capital employed in Sugar should go down in terms of stocks.

Sachin Kasera: What is the Company's policy in medium term towards reducing the leverage or towards reducing the interest cost, interest outflow for the Company?

J. K. Jain: I think the key point that we are making is that the major CAPEX are over and we don't have any significant CAPEX in the pipeline. Also, the new businesses, as we said, like Fenesta has already turned positive and we are seeing Hariyali improving going forward. Sugar will also start giving higher profits, so that should mean a better earning scenario. I don't think it will be reduction in debt per se right now, but the improvement in the earning scenario will improve the leveraging ratios.

Sachin Kasera: So, as such we don't see a significant decline in the overall interest outflow in the short to medium term. But, do we expect it to remain more or less at these levels going forward gradually or will it decline substantially in the next two to four quarters.

J. K. Jain: See, a major part of it will depend on subsidy and Sugar stock scenario. Our expectation is that the Sugar stock scenario should improve so to that extent, the interest should go down. Also, the subsidy scenario was bad because of higher Naphtha prices which going down will mean lower subsidy outstanding. So that should lead to reduction in interest cost.

Sachin Kasera: Was there any forex loss in this quarter or in the first half?

J. K. Jain: As we had mentioned in the last quarter also, we were fully hedged on our forex exposure before the start of current quarter, so there was no loss, but there was hedging cost here. There was premium cost. The entire amount that is shown under the exchange variation cost is essentially hedging cost.

Sachin Kasera: With regards to the coal plant which is just commissioned, I understand that some quarters back it was mentioned in the press that, it was supposed to get commissioned in the month of March and April '08, I believe now we are talking of stabilizing in Q3 FY09, so do we have any specific reason for the delay in this commissioning of the power plant.

Ajay S. Shriram: No, I think we did not mention about it being commissioned in March and April 08 because the plan for commissioning the 48 MW coal-based power plant in

Bharuch was in August-September ‘08 and that is under stabilization. It has now been commissioned and is operational.

Sachin Kasera: Will there be any benefit accruing to the Company in the Q3 FY09 from the coal-based power plant.

Ajay S. Shriram: Yes, it will, because the total generation of power now is coal based. We stopped our DG sets totally. If you take the cost of power generated on furnace oil-based DG sets, (we have 24 MW of that at Bharuch), the peak cost of generation is about Rs. 8 per unit, which now it is at about Rs. 5 per unit, and when we come down to our coal-based power plant, it will be about Rs. 3.50 per unit. So, that gives the advantage. The entire power for our Bharuch operations is only from a coal-based power plant which is cheaper compared to anything we had in the past.

Sachin Kasera: This Rs. 3.50 is based on coal contracts? How is the coal contract scenario there?

Ajay S. Shriram: Well, coal prices internationally have fallen quite a bit in the last five to six weeks. We are importing coal for this requirement, so we have stocks until for the next month and a half. We do not want to keep more than five to six week stocks. So, we are buying it on a regular basis because today fortunately the coal trade worldwide is quite established and it is not an issue buying coal.

Sachin Kasera: So when we mentioned the cost as Rs. 3.50, what level of imported coal prices are we benchmarking it at?

Ajay S. Shriram: The imported coal price landed at about under USD 100. So, if the prices were to go down further from there, there could be additional benefits

Sachin Kasera: Secondly regarding Co-gen plant which is coming up at the Sugar units - while the capacity is going to go up in this current season and considering the lower harvest this year, would they will be able to run at full capacity for the entire season? Will sufficient bagasse be available?

Ajay S. Shriram: Well, during the season, it will run at full capacity because it is a Co-gen power, so it is actually based on the steam production process. That is actually when we get the maximum economies because we generate steam at a higher pressure and the plant requirement is at a much lower pressure, so in the reduction process, we are able to generate power which is virtually free steam and free power. But you are right, from the point of view of having enough bagasse available in the off season, that is still an open question of what is going to be available, but we expect that, down the road bagasse prices will also go up. So depending whether we sell power or sell bagasse, which is an equation that we will have to work out at that time. But during the season we will get full benefit of this.

Sachin Kasera: What is the type of crushing we are looking at for the current season?

Ajay S. Shriram: We are looking at a crush of about 275 to 300 lakh quintals of Sugarcane this season.

Sachin Kasera: So, roughly around 60% to 65% capacity.

Ajay S. Shriram: Yes, we should be at about 60% capacity. Unfortunately this is a situation all over, that is why the Sugar production in the country which last year was about 26 million tons this year is projected to come down to about 20 million tons. That is the impact which is going to be there on the Sugar industry because of lower Sugarcane availability, but frankly at the same time it has the advantage of better Sugar prices.

Sachin Kasera: If you see the segmental results, of the Rs. 125 Crore almost Rs. 100 Crore of profit is contributed by Plastics and Chemicals.

Ajay S. Shriram: Right

Sachin Kasera: We have been hearing of late that there has been a significant decline in both PVC as well as ECU prices. Could you throw some light on that and how could our profitability be impacted by that going forward?

Ajay S. Shriram: Well, this is a fact. The Chloro-Vinyl business is under pressure, our advantage is that we have got captive power generation, so our cost of production on these products is fairly low, but at the same time these products are soft, the prices have come down. We have the swing capability within our complex with the advantage of an integrated complex, where what we have done is we have taken maintenance stoppage on one stream of our PVC production. The additional Calcium Carbide which we make, we are selling that in the market which gives us a fairly satisfactory margin. Plus, we were selling some power, so that is offsetting to a degree. The price of PVC, especially, is under pressure, though Chloro-Vinyl prices are still better off.

J. K. Jain: If you notice the Sugar profit out of that Rs. 125 Crore is only Rs. 2.5 Crore. So, we are saying that these will go up which will also partly offset any reduction that we see in Plastics and Chemicals.

Sachin Kasera: Yes, but I think Sugar is also subject to winning the court case, because I think we all providing for sugarcane at Rs. 110, so there is contingent liability to an extent. Obviously it can go either way. Could you quantify compared to the Q2 FY09 quarter, what is the type of decline that we have seen in the profitability of Plastics and Chemicals.

Ajay S. Shriram: I think it is difficult to calculate this now because we are not sure what the price will move like and this is not a fixed price situation. We are also working on offsetting this through higher Calcium Carbide sale and Power sale. So, it will be difficult to give a figure on that right now.

Sachin Kasera: What has been the approximate decline in the realization, if you could highlight that?

Ajay S. Shriram: The realization drop in PVC has been approximately 35%. We have seen a drop in Chloro-Vinyl by about 10 to 12%.

Sachin Kasera: When are we looking to start the crushing for Sugarcane?

Ajay S. Shriram: As we also said earlier that we are in court because government had arbitrarily fixed a price of Rs. 140 per quintal of Sugarcane and industry is just saying that fix whatever price you want, but do it on a basis and this issue is in court. We are hoping that maybe between the 15th and 20th of November the industry in UP starts crushing.

Sachin Kasera: So this 275,000 to 300,000 that we are talking of is based on a 15th to 20th November crushing, in case of any delay, could this go down further?

Ajay S. Shriram: There is a lot of cane standing anyway. So the season will actually get extended a little bit. One has to wait and watch because the cane availability is lower than at least it was last two years ago.

Moderator: Thank you very much Sir. Next in line, we have Mr. Avinash Agarwal from Sundaram BNP Paribas. Please go ahead.

Avinash Agarwal: I just wanted to know what would you do if there is no interim order from the Supreme Court by 15th or 20th of November, will you start crushing then?

Ajay S. Shriram: Well, I think the industry is having regular discussions and meetings among themselves. I am told that the next hearing is on the 18th of November. So I think on the 18th we will be much clearer about how things stand and we should start crushing immediately after that.

Avinash Agarwal: Do you expect the Fertilizer subsidy to come in this quarter?

Ajay S. Shriram: Yes. You may have read in the papers that the Ministry of Fertilizers and our ministers and secretary have very aggressively worked towards ensuring that the subsidy payment to the industry is given. So, against the allocation in the budget which was about Rs. 36,000 to Rs. 37,000 Crore, the total allotment including supplementary, etc., is running at almost Rs. 82,000 Crore. We are expecting the money to come in. We may have a problem in the fourth quarter which is the normal cycle when the money runs out, but in this coming quarter at least, we don't expect too much of a problem. One more advantage is that the oil prices have fallen because of which the total amount outstanding with the government has also dropped dramatically. It has happened for the first time that any of us can remember where the price of Naphtha is lower than the price of gas on a spot market. That has made a major difference. So, the prices have come down which means our money tied up with the government has also come down.

Avinash Agarwal: You just mentioned a very useful point that prices of Naphtha are down below the cost of your gas.

Ajay S. Shriram: Yes.

Avinash Agarwal: Do you expect this situation to continue?

Ajay S. Shriram: That is a very difficult thing to say, but the good thing is that the prices of everything are down. So, the advantage is that the total cost of manufacturing by the industry is much lower than what it was two to four months ago. The problem in India is that the gas availability is limited. Our plant is one of the second plants in the country which has a capability to use either 100% naphtha or 100% gas or any combination thereof. So, gas is something we are also looking forward to, but we are now moving depending on the price.

Avinash Agarwal: Do you plan to expand your Fertilizer capacity?

Ajay S. Shriram: No, we are not looking at that.

Avinash Agarwal: What is your view in terms of global Fertilizer prices, take Urea or DAP or inputs, there has been a substantial decline in these prices.

Ajay S. Shriram: It was a situation where a year and a half back, the prices of Urea, DAP, MOP, sulphur, everything moved to stratospheric level. The industry never expected things to go that high. Who had thought DAP would be available at USD 1350 per ton or Urea at USD 800 plus per ton, but that has all come down which is much more rational. Oil prices have also come down which is helping the cost of production come down. It is a more rationale situation today.

Moderator: Thank you very much Sir. Next in line, we have Mr. Gaurav Garg from Enam Securities. Please go ahead.

Gaurav Garg: What are the current Sugar price realization and what is your view going forward?

J. K. Jain: The current price is about Rs. 1,700 to Rs. 1,750. As our CMD said in his speech, we expect that the prices will remain firm in view of the Sugar production scenario which is emerging. These prices that we are referring to are the XWR realization at our factory, not the market price because XWR includes excise, freight, etc.

Gaurav Garg: You have mentioned in your press release notes that the off season expense of Rs. 16.77 Crore has not been accounted in the quarter; can you just explain what does this amount consist of?

J. K. Jain: No, we are not saying it is not accounted; see what happens is that these are also a part of the production cost which have to be loaded on production. Now since the production happens only in the season, they are now deferred and will be loaded on the production when the season starts, and it comprises of essentially maintenance and factory personnel expenses.

Gaurav Garg: You have accounted for Sugar year 2007-2008 at Rs. 110 per quintal

J. K. Jain: Yes.

Gaurav Garg: So, any arrears or any difference amount is yet outstanding to be paid to the farmers?

J. K. Jain: No, we have made all payments at Rs. 110. If this Rs. 110 is revised, that will have to be paid extra.

Moderator: Thank you very much Sir. Next in line, we have Ms. Falguni Thacker from Jet Age Securities. Please go ahead.

Falguni Thacker: My question pertains to the Sugar sector. I wanted to know what the import duty on Sugar is right now.

J. K. Jain: It is either 60 or 65% ,if we remember correctly.

Falguni Thacker: But it is still there, it hasn't gone?

J. K. Jain: No, it hasn't gone, unless government comes out with a special notification to permit duty free imports which they do in times of shortage. But in a normal case, the import duty is in that range.

Falguni Thacker: Is there any re-export obligations for the Sugar that we import in the Sugar sector in general, like it used to be earlier. If one just wants to consume it domestically, can that be done?

J. K. Jain: See, as I said this import is permitted with duty that doesn't carry any re-export obligation. Re-export obligation had come in when government had permitted imports without duty in order to meet the shortfall.

Falguni Thacker: So, whenever import is permitted without duty, the re-export obligation stands still right?

J. K. Jain: Yes, but I don't think that scheme is open any longer. So, they will have to come out with that scheme as and when they want it to be in operation.

Falguni Thacker: Is there any re-export obligation on the raw Sugar which is imported and refined and then re-exported?

J. K. Jain: No, I think the refining which exists in the country is 100% EOU, so they import and then they export as a 100% EOU.

Falguni Thacker: How much drop is expected in Sugar production or cane output in UP.

J. K. Jain: See, overall at a country level, people are saying vis-à-vis 26-27 million quintals; it will be around 20 million quintals. Major reduction is going to come in

Maharashtra which would be from 9 million to 5 - 5.5 million. In UP the reduction should be around 15% compared to last year.

Falguni Thacker: What is DCM's cost of production per ton for Urea?

J. K. Jain: We can give you that number, but that is not material because the fuel price has passed through, it doesn't affect our profits.

Falguni Thacker: Yes that is right, but just wanted to know the dynamics.

J. K. Jain: Last quarter it was about Rs. 24,000 to Rs. 25,000, but it has gone down sharply since Naphtha prices have gone down sharply.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Mohammed from Systematix Shares & Stocks. Please go ahead.

Mohammed: You currently have 210 outlets in your Hariyali Kisaan Bazaar business and you are planning to expand it to 300 outlets. I just wanted to know when this business will start showing positive earning. Do you have any benchmark that you have to reach some number before this business will start showing positive results?

Ajay S. Shriram: Yes, you see, this is one of the businesses where I may use the phrase, "like the chicken and egg" -where unless one has the economies of scale, one is not able to get the throughput and the consequent margin to cover all the costs and also, higher the business level, higher the volumes The negotiating capability to purchase from vendors becomes better if we buy more and then we have a stronger position to negotiate. It is a structured part of our growth plan to actually carry this business forward rapidly, which is why we want to go about 300 outlets by March 2009. I will just add to that; because of this tremendous reach which we have in rural India - beyond just the business of selling which is the retailing part, we have the capability of having a contact base with a very large number of farmers where we can do a lot more than retailing. That is why, as we had mentioned earlier, we got into warehousing which is an additional revenue stream. We are now working on milk collection and our target in another month's time is to start collecting milk in central UP. The plan is to, over the next three to four years; substantially increase our base to collect milk, which is going to give us additional margin. We are doing fruits and vegetables for many retailers who are in town, which is also giving us the additional margin. We are looking at it as a package, not just retailing; as it is actually doing a lot more.

Financial services are one of the major legs that we are aggressively pushing. Besides having insurance for life as well as non-life, we have loans for crops, for cattle or weather. We have a tie-up with Western Union for money flows; it is like a package where it is a one stop shop for the farmer and his family or for the rural resident and his family, not necessarily a farmer because 40% of rural India is non agriculture.

So, considering all the plans and the business models we have, we feel we will come to positive between 18 to 24 months on our entire Hariyali Kisaan business and consequently after that, it will be a positive bottom line all the way.

Mohammed: So, you are expecting the things will start showing positive numbers after another two years.

Ajay S. Shriram: I think we should be in a positive position in a year and a half to two years.

Mohammed: How much have you invested so far in this business?

Ajay S. Shriram: The total investment so far is about Rs. 450 Crore

Mohammed: So, you are saying around Rs. 2 Crore per outlet?

Ajay S. Shriram: No. We have centers and stores. Centers are where we buy three to five acres of land and we build a center which is between 12,000 to 15,000 square feet, where we also have land for our warehouse, we have banking facilities, insurance - it is a much wider base for lot more activities there, like milk collection, fruit collection etc. In fact, we have got 75 centers today and the balance is stores, which are actually set up in rented properties which are between 5,000 to 8,000 square feet and where we market and sell a lot of these products, but not the same range or not the same number of SKU's as we do in the center. We have invested in 75 centers so far, plus we have a land bank of another 35 to 40 centers, which is then coming under construction in a structured manner. This is the total investment as on date. In rented property stores the investment is much lower because there is renovation or making or modifying the building and getting the interiors done, however a center takes more CAPEX.

J.K Jain: Also, this investment figure includes the net inventory and not only the setting up cost of about Rs. 75-100 Crore.

Mohammed: I wanted to know that last year you have raised around Rs. 780 Crore from the sale of land redevelopment project. How have you utilized that money?

J. K. Jain: The inflow net of the tax payments that we had received on account of land was about Rs. 650 Crore. We have utilized it to fund all the CAPEX programs that we have been implementing since March 2004. We have increased capacities in almost all our business during the last four years on which we have invested close to Rs. 2,000 Crore. For this, we didn't raise any other equity fund; it was funded from internal generation and the revenue from land.

Mohammed: What is the current debt position of the Company?

J. K. Jain: The long term debt is about Rs. 1,000 Crore which is what has gone for funding the CAPEX. The short-term debt does fluctuate quite a bit depending upon Sugar and subsidy outstanding. As on 30th September, it was about Rs. 900 Crore.

Mohammed: How much is in foreign exchange?

J. K. Jain: The long-term debt is 50:50. So, 50% rupee, 50% forex, and our forex exposures are fully hedged throughout this year.

Mohammed: What was the average cost of long term debt, both foreign and domestic?

J. K. Jain: Long term rupee debt will be about 10% and foreign currency will be about 8.5% fully hedged. So, average would be about 9.25%.

Mohammed: Are we expecting the cement prices to come down in the coming quarters; do you think it will affect your margin and what is your view on that?

Ajay S. Shriram: Well, frankly, if cement prices come down, it is going to affect every manufacturer. But the other side of it is that we have the advantage of using Calcium Carbide sludge which is one of the waste products that comes out of the Calcium Carbide plant. We also expect that if these things happen down the line, then the input cost will also come down. As we are seeing oil prices come down, we expect coal prices also to come down. With all that happening it would affect the business overall, but then the input prices should also come down.

Mohammed: So you think it is not going to affect your margin?

Ajay S. Shriram: It may have a marginal affect, but I don't think it would be anything substantial.

Moderator: Thank you very much Sir. Next in line, we have Ms. Parul Patel from Avendus Capital.

Parul Patel: You mentioned that the order book of Fenesta being 1.6 lakh windows. What is it in value terms?

J. K. Jain: It will be close to Rs. 80 Crore.

Parul Patel: There is a reduction in key input a price for your chemical division, but at the same time, there is softening in terms of prices. Now, what in your opinion would be the base of reduction in prices? Will they offset all the benefits which you would probably get from the reduction in cost?

Ajay S. Shriram: Well, frankly I don't think it will offset all the reduction, but what is happening is that one of the major elements of cost is power and power cost is linked to the coal price. To run at full capacity we have a linkage for coal availability at our Kota complex. We were not getting full coal under the linkage; we were getting about 80% and were buying the rest from the open market. Now, we are finding that linkage availability is getting a little better because possibly the coal demand is getting affected. Once that happens, we have a lower cost of coal on an average if, one takes the total 100% consumption of coal. We expect the coal prices to come down and that will give us an advantage.

Similarly, it is expected that freight prices should come down in the near future. For Bharuch itself, we were importing coal, which earlier was furnace oil based is now coal based. Coal prices internationally in the last two months have also fallen. So, when we buy our next tranche of coal which is towards the end of November, we will have a lower price. This will give us the advantage of a lower input cost for our products, but frankly speaking I think no one is in a position to guess what is going to be the final selling price of the product. It is something which is open ended, but at least the effort which we have to make as a corporation is to ensure that our cost of production comes down as close, if not fully, compared to the selling prices. So, our attempt in terms of our overhead cost, our fixed cost, our sourcing strategy, our inventory strategy, everything is undergoing a revisit to see how we improve our efficiencies across the board.

Parul Patel: You have mentioned about your new growth drivers and even hearing about Hariyali Kisaan initiative, the Fenesta initiative they have really given spectacular results and they are all very good. My question is when you think they would reach a size where it would really help provide stability to your portfolio especially the commodity part of it, which forms the bulk of your profit and profitability. When do you think these more stable revenue streams would help de-leverage your portfolio?

Ajay S. Shriram: Well, one advantage actually with things like Fenesta is that it is not so linked to the commodity prices. Fenesta, we are already on PBDIT positive in this financial year, and growth is moving well. Our focus on the retail segment is moving very aggressively and that has two advantages. Firstly, the margins are better than what we are getting in the Sugar segment and secondly, the retail demand is not as affected as the institutional segment. We expect the retail to grow rapidly. We have appointed a large number of dealers. We are actually moving aggressively. Down the road, we expect Fenesta business to become a solid stable consumer product type business which will provide regular growth and regular bottom line and not banking on the swing.

Regarding Hariyali as I mentioned earlier, we expect in 18 to 24 months to become positive and as the business volumes grow, the bottom line will automatically keep growing and this year we are seeing that unlike what is happening in cities and towns, the actual money availability in rural India has not really gone down. If one sees, the agricultural produce has been good in the Kharif season, the farmers are still spending, we are expecting the Rabi season to be good, by which the money availability in rural India will be fairly satisfactory. For instance, the sale we have had during our Diwali season on Hariyali has been three times of what we had last Diwali. Thus the growth is moving well.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: When did we start crushing last year?

Ajay S. Shriram: It was about November end.

Achal Lohade: How have you calculated this 275 lakh quintals cane crushing? This is considering which crushing date?

Ajay S. Shriram: Well see it is not so much dependent on the date per se because what happens is if we start crushing one week later, then we should continue crushing one week later from the pervious day of stopping the plant. There is a lot which goes to gur and khansari that depends. But farmers are also realizing to a degree that the prices paid by gur and khansari are lower than what Sugar factory is paying, so, not many farmers go to them. We don't estimate too much of a loss, but I think the more important point is we must have total clarity on the price of Sugarcane before we can start crushing from the point that we are building our relationship with the farmer. We can't go open ended not knowing what price we are paying to the farmer and the farmer not knowing what price he is getting and the whole issue hanging in court or with the state government. We must have clear policy otherwise it is very difficult to operate anything.

Achal Lohade: The next hearing apparently is due on 18th of November. If even that gets delayed similar to today's hearing what would be our sense on that because, just some time back you said we may finalize between 15th to 20th November.

Ajay S. Shriram: Yes, I think there are two issues. First, the industry is coordinating very closely to see what the situation is like and second, the industry always has the option to go to Supreme Court. So that is an alternative also which is there.

Achal Lohade: But when it is still in the process of hearing how can we go to the Supreme Court?

Ajay S. Shriram: We can. We have asked our lawyers. If the High Court keeps pushing it back to December we will have to go to Supreme Court. So, I think we have options that are available and we will have to take a view at that time.

Achal Lohade: Can you give us some sense on gur-khansari players, like what kind of prices are they paying, what are their current realizations.

Ajay S. Shriram: We heard that the price varies a lot, but against the industry's payment last year of Rs. 110; they were paying lower than that.

Achal Lohade: But this year the Sugar prices have improved, so probably they might be paying a little higher this time, just wanted to get a sense.

Ajay S. Shriram: I heard a couple of weeks ago that they are paying about Rs. 100 to Rs. 110 and not more than that.

Achal Lohade: I understand the industry is talking about a price of Rs. 112 per quintal vis-à-vis the SAP of Rs. 140 and farmers' expectation of Rs. 160. So, what kinds of solution do you except from the Supreme Court judgment?

Ajay S. Shriram: You see the industry has taken two-three points of view on this. Industry is saying, look, we would be happy to pay whatever price you think is suitable but you must ensure that the Sugar price also is commensurately increased to that extent. One can't have a Sugar price which is suppressed. The Government determines the releases of Sugar and can't have a cane price decided by the state and the industry becomes unviable. Frankly one of the major losers, when the industry is unviable, is the cane farmer. The industry is also telling the State Government in UP that if you want to pay a higher price and the industry can bear only Rs. 112 then let the government pay the difference. This is what they are doing in Thailand. It is a logical way. They are giving a differential between what they want to pay to the farmer and what is justified as a rational Sugarcane price, the difference is given as interest-free loan. Let the government do that. We will be very happy with that.

Achal Lohade: What are the current alcohol prices, I mean have they come off from Rs. 30.

J. K. Jain: We don't have distillery. We sell molasses not alcohol. We last sold molasses at about Rs. 500.

Achal Lohade: On the industry side, with the recent floods in central UP. Do we have any plants situated in the area where flooding was experienced?

Ajay S. Shriram: We have got four factories in central UP. Our total cane area spreads across 250,000 hectares. So, some of the areas were under flooded area but it was marginal. We have taken steps immediately to remove the flooding by digging pits and using excavators. So there is no major impact.

Achal Lohade: What is the impact we are seeing on the UP industry as a whole.

Ajay S. Shriram: Frankly speaking, I don't think it is that much. I think the total cane availability for Sugar production is estimated at about 6 million tons. I think that is an indication of what we will get as far as Sugarcane is concerned.

Moderator: Thank you very much Sir. I would now like to hand over the floor back to Mr. Shriram for final remarks.

Ajay S. Shriram: I would like to thank you all once again for coming over to this investor conference call. The global economy is in a tight position, as I mentioned during the course of the last one hour, there are uncertainties in the future also, but I think as far as our group is concerned, we have a fairly structured plan, how to tackle this. One of the basic advantages which we have is our swing capability where we can move to either sell Power or sell Calcium Carbide or PVC or Caustic Soda, Chlorine, so that gives us a tremendous swing capability to hedge one product against the other. That is the big advantage we have and secondly, as being done by everyone, we are also moving very aggressively to improve our efficiencies and reduce costs across the board whether it is fixed cost, inventories, operating cost and even variable cost. Frankly speaking, we look at it this way that if the prices are down, well someone else also must reduce their prices when we are buying from them. We are selling to people at a lower price, so we also should get a lower price. We are also aggressively revisiting our entire vendor and pricing strategy. Thirdly, we have had the benefit of expansion. We have just done that in our Chlor-Alkali in Bharuch and having power which three months ago was generated at Rs. 8 per unit has come down to Rs. 3.50 per unit, so these advantages give us a better stable position than many other industries. So, we feel that our group is stable and we look forward to a good next quarter and the quarter after that also. Thank you very much once again for coming on the investor conference call. Good bye.

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