

## DCM Shriram Consolidated Limited

### Investors / Analysts Conference Call

7 November 2005

**Moderator:** Good afternoon Ladies and Gentlemen. I am Monali, the moderator for this conference. Welcome to the DSCL 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 now like to hand over to Mr. Nitin Tandon of Citigate. Thank you and over to you Sir.

**Nitin Tandon:** Thank you. Good afternoon Ladies and Gentlemen, and thank you for joining us on DSCL's Q2 and H1 results conference call. Joining us on this call are 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.

We propose to begin the call with opening remarks from the senior management team of the Company after which we will have a discussion forum. I would now like to invite Mr. Ajay Shriram to share with us his view on the performance of DSCL in Q2 FY06 and H1 FY06. Over to you Mr. Shriram.

**Ajay Shriram:** Thank you Nitin. Good morning Ladies and Gentlemen. Let me welcome you all once again to DSCL's second quarter and half year conference call.

As you are aware, our business strategy focuses on our energy intensive businesses on one hand and the agri businesses on the other. Our energy intensive businesses, which are managed as an integrated operation comprise of plastics division where we manufacture Resins and PVC compounds, Chlor-Alkali, Cement, and Fenesta window and Door Systems. Revenues from these businesses increased by 38% to Rs. 348 crore in the half year 2006 while the PBIT improved by 46% to Rs. 93 crore. Our agri businesses, which includes sugar, agri inputs including fertilizers and hybrid seeds, other merchandized agri inputs, and Hariyali Kisaan Bazaar, our rural retail initiative; our revenues from these businesses grew by 56% to Rs. 811 crore for the half year 2006 while PBIT more than doubled to Rs. 38.53 crore. Overall, we have recorded satisfactory performance in the half-year with our net revenues increasing by 48.5% to Rs. 1,142.9 crore from Rs. 769.5 crore. Operating profit increased by 58.6% from Rs. 91.62 crore to Rs. 145.3 crore and PAT increased by 98% from Rs. 32.62 crore to Rs. 65 crore. The growth has been both volume led and price led.

Based on the satisfactory growth in performance, the Board decided to increase the interim dividend to 20% post bonus capital compared to 12.5% last year. We are implementing many growth initiatives within both our business streams with a view to substantially improve performance over the medium term. In our energy intensive businesses, this includes on-time implementation of expansion plans covering our Chlor-Alkali business, our PVC resin business, Cement, Power, and the Fenesta business.

The first phase of modernization expansion of our Chlor-Alkali business, which was commissioned in March 05, stabilized during the quarter. We are further planning to expand the capacity of this business by another 60 tonnes per day, approximately 13.5% of the existing capacity at a very competitive cost of Rs. 24 crore by February 2006. This brownfield expansion will have an attractive payback.

We commissioned a new furnace for calcium carbide in July 2005. This will increase our capacity from 190 tonnes per day to 340 tonnes per day. The additional capacity will meet the increased demand from our PVC resins business. In our PVC resin business, we have completed the expansion from 115 tonnes per day to 175 tonnes per day. This expansion was commissioned in October 2005.

In September, we also commissioned a 40 MW coal-based captive power plant at our Kota complex to meet the additional power requirements arising due to expansion of our Chlor-Alkali and PVC resin businesses. We now have a total captive power capacity of 125 MW at our Kota facility.

Our value-added businesses of Fenesta Window Systems is generating encouraging response. We established a fabrication center at Hyderabad and we are receiving orders from leading builders demonstrating greater acceptance of the product and the concept.

Moving to the initiative on the agri businesses, the first phase of the sugar crushing capacity expansion has been completed taking our capacity for the year 2005-06 season to 14,000 tonnes per day. We are also planning to more than double the capacity of our sugar operations to 33,000 tonnes per day by the next crushing season that is 2006-07 by setting up two new sugar factories. Alongside, we will also be enhancing our co-gen power capacity from 24 MW to 81 MW including 38 MW for export to the state grids. We believe that the sugar business is best managed as an integrated operating model and we will also be setting up our own distillery in the future.

Our rural retail initiative, Hariyali Kisaan Bazaar is showing good progress. Currently, we have 18 operational stores and are targeting about 30 stores by the end of the current financial year. We are also adding new services like the ICICI Bank ATMs, FMCG goods, and fuel stations at our Hariyali Kisaan Bazaar shops. As we establish our model, it is our plan to accelerate the rollout of new stores going forward.

Just to give a little recap on the investments made so far, till the year 2005-06, that means by March 2006, we would have spent a total capital of Rs. 471 crore, which is on projects, which have been completed. In the financial year 2006-07, which includes basically our sugar factory expansion, we would be spending another Rs. 417 crore on these expansions taking the total in these two years plus from April 2004 onwards till October 2006, we would spend approximately 900 crore on the total expansion of the Group.

To sum up, our performance for the short to medium term will be driven by better volumes across our operating businesses. Over the longterm, we expect to gain contribution from our value-added businesses such as the Hariyali Kisaan Bazaar and Fenesta windows that have the potential to create significant value.

I will now request Vikram to discuss key highlights of our financial performance. Thank you.

**Vikram Shriram:** Thank you. Good afternoon Ladies and Gentlemen. Thank you for joining us on the conference call today.

I will quickly run you through DSCL financial numbers for this quarter and half year ended September 30, 2005. For the quarter, net revenues increased by 25% to Rs. 559 crore. For H1 2006, revenues increased by 48.5% to Rs. 1,143 crore. In Q2 2006, operating profit went up by 27.5% to Rs. 63.6 crore. Operating profit for H1 2006 increased by 58.6% to Rs. 145.3 crore. PAT increased by 45.6% to Rs. 26.1 crore for the quarter. PAT for the half year more than doubled to Rs. 64.7 crore. EPS was Rs. 1.58 for the quarter and for H1 2006, EPS was Rs. 3.90. Both the EPS figures for the quarter and half are on a Rs. 2 per face value basis post split and post bonus issue.

Now, let us go through the business wise financial numbers for Q2 2006 and H1 2006. Having completed the major phase of Chlor-Alkali expansions in March 2005, we saw increased volumes and better realizations in this segment vis-a-vis the same period last year. Chlor-Alkali prices during Q2, however, were lower than Q1, but seemed to have stabilized for the time being. For the quarter, revenues from the chemical business increased by 52% to Rs. 84 crore. Revenues for the half year increased by 67.6% to Rs. 176.5 crore. PBIT for the chemical business, more than doubled to Rs. 34.7 crore for the quarter and PBIT increased more than threefolds to Rs. 81.6 crore for H1.

In plastics, PVC resin prices, which started recording downward trend since December 2004, have since seen a reversal in July 2005 onwards. The prices are now stable at more reasonable levels, though still lower than the same period last year. The revenues for this business were lower by 16.9% to Rs. 46.1 crore for the quarter and for the half year by 13.2% to Rs. 95.1 crore due to lower prices. The business did see some cost pressures also due to increases in charcoal, carbon material, chlorine, and coal. With commissioning of our expanded PVC and carbide capacities, and captive power, we expect improved performance in H2 2006.

Revenues for the fertilizer business were up by 9.6% to Rs. 148.7 crore during the quarter. For H1, revenues increased by 30.9% to Rs. 305.7 crore for the fertilizer business. Fertilizer PBIT for H1, jumped up by 90.1% to Rs. 13.8 crore. Last year, the fertilizer plant had a planned shutdown for a month in June-July, that is why this increase this year. We saw a decrease in earnings for the fertilizer business during the quarter due to increase in conversion cost and freeze on reimbursement of the same by the Government.

Our sugar operation revenues more than doubled to Rs. 95.2 crore for the quarter. For the half year, sugar revenues saw a four fold increase to Rs. 183.3 crore. In Q2 2006, PBIT for sugar increased more than four times to Rs. 12 crore when compared to Q2 2005. H1 2006 PBIT for sugar saw a twofold increase to Rs. 23.3 crore. Sugar performance was better because of better realizations and higher sales volumes.

Our traded products business saw a decrease in profits on account of significant appreciation of the US dollar against the rupee during the period. Q2 2006 revenues increased by 4% to Rs. 145.1 crore and H1 2006 revenues increased by 62.4% to Rs. 303.8 crore.

The market conditions remained positive for all the businesses from the long-term perspective, and having recently completed expansion we are in a good position to benefit from such an environment.

That brings me to the end of my review for the quarter and half year's performance. We are now open to questions. Thank you.

**Moderator:** Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may 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 limit to one question in the initial round. First in line, we have Ms. Parul Inamdar from Stratcap.

**Parul Inamdar:** Good afternoon. Given the fact that your chemical division contributed 60.9% to EBIT level and the fact that realizations are softening, will the Company be able to achieve the growth figure based on both its current and planned capacity expansion?

**Ajay Shriram:** Yes, in fact, the prices had softened. They have somewhat firmed up recently, and we feel that based on what we have already implemented as a capacity expansion, and one we will be implementing by February, we will see strong growth in the chemical business.

**Parul Inamdar:** Alright. What is your outlook on the threat of imports and the antidumping issue and even though global realizations of Chlor-Alkali have remained stable?

**Ajay Shriram:** Global realizations are still very firm. In fact, the global prices are somewhat higher than the domestic prices, so we do not see a major threat from imports at this point.

**Parul Inamdar:** Alright. Thank you Sir.

**Moderator:** Thank you very much ma'am. Next is Mr. Santanu Chakrabarti from New Vernon Advisory.

**Santanu Chakrabarti:** My question is, in your plastics business, the method of production, correct me if I am wrong, is calcium carbide method. Now in this method, the top line as I know is, your top line output is, the revenue is dependent on crude prices but your cost line is not, but in spite of that the performance of the plastic division for the quarter does not seem very strong, so could you throw some light on that?

**Ajay Shriram:** You are absolutely right, whereas the PVC prices do reflect the petroleum trends, but on our side, the prices did come down overall for everybody and there was some cost push to us also because of increase in cost of coal, charcoal, and carbon materials, and another big constituent is chlorine, so when the chlorine prices are high they impact our PVC operations, but just as an example if you compare with petroleum based producer like Finolex, you will find that the drop in our case is far less than a producer who is based on a petroleum route.

**Santanu Chakrabarti:** Okay. Thank you.

**Moderator:** Thank you very much Sir. Next is Mr. Kamlesh Kotak from Asian Markets.

**Kamlesh Kotak:** Two things, we wanted to know, one is, what is the state of the development in case of your real estate project, and second is what is your debt position as of today, and by March 2006?

**Vikram Shriram:** The real estate project design phase is over. It has been submitted for approval. In Delhi, there are several approvals needed, and it is in the approval phase.

**Kamlesh Kotak:** So, when it will be commissioned, I mean, when you will start working on that?

**Vikram Shriram:** The approvals are in the hand of Government, but one cannot give a very firm view, but we hope in the next financial year, we should be through with it.

**Kamlesh Kotak:** That is 2006-07?

**Vikram Shriram:** That is right.

**Kamlesh Kotak:** Okay, and what is your loan outstanding position as of now.

**Vikram Shriram:** As of now, it is lower, but by the end of the financial year, it will be in the region of Rs. 600 crore.

**Kamlesh Kotak:** Rs. 600 crore?

**Vikram Shriram:** That is right. Long term debt.

**Kamlesh Kotak:** Okay Sir. Thank you.

**Moderator:** Thank you very much Sir. Next is Mr. Sachin Kasera from Pioneer.

**Sachin Kasera:** My question is regarding the sugar business. In the last conference call, you had indicated the production of sugar for the season would be higher by around 40%, so I wanted an update on the same, means, is the trend on the same line or is there some deviation on that front?

**Ajay Shriram:** No, this year our sugar business growth should be as we had projected because both the factories have expanded, as I mentioned little earlier, as well as the cane crop this year is also better. So we expect the growth to be as per our projections.

**Sachin Kasera:** Okay. Secondly, regarding the sugar that we have sold in the first half, how much percentage of that is levy, because I believe there is a 10% levy quota, so are we adhering to that full 10%?

**Ajay Shriram:** Yes absolutely, I mean, these are Government rules and there is no scope for not adhering to it, so we are moving 100% as per the Government guidelines.

**Sachin Kasera:** Okay, and could you just, because I also believe the press release mentions that the profitability, the volume in the sugar has improved because of clearing

of inventory, so if you can throw some light on in terms of how does this quota system work in terms of sugar release order, specifically for UP based states?

**Ajay Shriram:** No, this quota release system is applicable to everyone and there is a particular levy quota, which we have to supply at a fixed price, and for the balance sale there is a system of the Government where we have to sell it every week on a particular basis. Every month, you have to sell a particular amount, so that is what we have to sell based on the Government releases.

**Sachin Kasera:** So, is it that we get every week release quota from the Government as to how much sugar...?

**Ajay Shriram:** No, it is a monthly release quota.

**Sachin Kasera:** Okay, and are there wide fluctuations in the same or, what is it linked to, is it linked to our production capacity, or is it linked to the market demand?

**Ajay Shriram:** No, basically the Government actually decides the releases on a quarterly basis depending on the market price, and then that is back calculated for each factory based on the production, based on stocks, and based on other parameters of the Government and then each factory is indicated how much they can sell every month.

**Sachin Kasera:** Okay, because sometimes I have seen that for a more or less similar quarterly release quota by the Government, for companies amount of sugar sold, there is a wide fluctuation. That is why I was just trying to understand as to how does the correlation of the specific company works.

**Ajay Shriram:** No, I will be honest, what has happened in the past is many companies due to either cash flow problems and others have gone to court and obtained court orders to sell more sugar, it is not something which is ongoing activity. The companies had taken because of cane arrears basically, they wanted to get more sales so that they can get better cash flows to pay off the cane arrears, so some companies have gone to court on this in the last couple of years, but I do not think now anyone is looking at this because the sugar prices have improved because of which the cash flow and the financial viability of sugar companies is better than what it was a year or two years back.

**Sachin Kasera:** Secondly, our margins in sugar around 12-13% in the first half, this is a bit lower as compared to some of the other more efficient players, so is it because that we are integrated is the reason or because our costs are higher?

**Vikram Shriram:** No, actually it depends on the accounting policy for off-season expenditure. Several companies do not charge the off-season expenses to the P&L account. They keep it in a suspense account and charge it to stocks when the production starts, however, we follow a more conservative accounting principle and we charge all the off-season expenses to the P&L account. This is the only reason for the difference. It is not an efficiency based difference. In fact, we are relatively amongst the most efficient players or more efficient players in UP and you will see that reflect in the second half when these off-season expenses in our case will be reversed and the others it will not be.

**Ajay Shriram:** If I may just add to this that, in our sugar recovery season, in one of our factories Ajbapur factory, in the last crushing season, our recovery was the fourth highest in the whole of UP whereas west UP normally has a much higher recovery, but our recovery was higher than many west UP factories also, which gives an indication of our cane management, our operations, and our losses management, so that way our efficiencies are fairly satisfactory.

**Sachin Kasera:** One last question on sugar, what was the break up of molasses and sugar for the quarter as compared to last year?

**Ajay Shriram:** On the sales value is it?

**Sachin Kasera:** Yes.

**Ajay Shriram:** Molasses is not that large, one second, we will just see if we can get that figure...

**Vikram Shriram:** Molasses prices were lower than the previous year that is the fact.

**Ajay Shriram:** Sales value, we do not have this figure right here, I must be honest, but it is not large. Compared to the sugar sales value, molasses is much smaller.

**Sachin Kasera:** Yes, but this is a very profitable product, I understand.

**Ajay Shriram:** Yes, molasses is profitable because that is the waste product which we are able to sell. Well, it has added to the bottom line over the last couple of years definitely, but we do not have the figure right now.

**Sachin Kasera:** This MSP for the current season has been increased, so how does that impact margins and profitability of sugar?

**Ajay Shriram:** MSP for what?

**Sachin Kasera:** For sugarcane minimum support price by the UP Government?

**Ajay Shriram:** The Government has not yet indicated, the state of UP at least, has not yet indicated what is the price sugar factories will have to pay to farmers, so we are not aware. Today, maybe 70% of the factories in UP are running and today we are all working on the system of keeping the price open and getting the cane because the farmers also know and we also know that once the State Government announces the price, we have to adhere to it, so based on that we are running today based on what we call an Open Purchase System where we are giving a blank chit saying that whatever the price fixed by the Government we will pay, so we are not aware at the moment of what the price is which the Government is going to fix.

**Sachin Kasera:** But any indication as to when would the same be announced because you must be interacting with the Government?

**Ajay Shriram:** We are interacting, we have also told the Government please let us know urgently because some factories started some time back, as you maybe aware that the cycle of payment is that within 14 days we have to pay to the farmer. Some factories are

running more than 14 days, I mean, they have started more than 14 days ago, so we are trying to tell the Government to please let us know urgently so our cycle of payment also can continue to the farmer on an ongoing basis. We hope they will do it soon.

**Sachin Kasera:** Okay. Thanks a lot.

**Moderator:** Thank you Sir. Next is Mr. Sanjay Kohli from Karma Capital.

**Sanjay Kohli:** Congratulations on a good set of numbers. I have a couple of questions, one is on your sugar business, are you in the futures market at all, whether in the Indian futures market or overseas futures market in sugar? I mean, is it possible to be able to sell your produce?

**Ajay Shriram:** I will just ask our CFO, Mr. J. K. Jain to answer that.

**J. K. Jain:** See we are actually selling largely on physical basis, but yes, we are testing the system on futures exchange also. We have done some small transactions just to understand the system better during the quarter, but as a system, yes, it is now possible to sell the sugar under futures exchange also.

**Sanjay Kohli:** Okay, but it is early days right now?

**J. K. Jain:** Yes it is early days because we are just trying to understand the system better and see how does it work and how does it get influenced.

**Sanjay Kohli:** No, but tell me if you could do it, the prices that you are getting currently, how much forward would you book to, if you can go up to, say, two years contract?

**J. K. Jain:** No, right now the system is open only till April 2006. I cannot book beyond April 2006.

**Sanjay Kohli:** No, but in the overseas market, there is a pretty liquid sugar market?

**J. K. Jain:** We are not trying it in overseas market, we are understanding first the working through the local system, and after we have understood that perfectly then we will see whether to go to the futures market in foreign country or not.

**Sanjay Kohli:** Okay, but there would not be a paradigm change in cane prices, right, because given sugar realizations have gone up, do you think the Government will again maintain the same kind of gradient of increase?

**Ajay Shriram:** See, as an industry we have been speaking to the Government, if I may mention about UP that we have had interaction with the Government and we have told them that do not look at cane price on a one-year basis, but look at it as an industry, which is there for the next 25 years, so how do you want to balance out cane price in such a way that the farmer gets benefit, but the factory also must, it must be financially viable to the factory so that they can actually manage to one, pay the cane price and not have earlier like we had a couple of years ago, and at the same time not sort of make it unduly remunerative to farmers where in everyone jumps into cane and then you have a cane arrear and then people jump out of cane, so then you get into a vicious cycle which actually has a negative impact on everyone.

**Sanjay Kohli:** How are they responding now, what is your sense of this going forward?

**Ajay Shriram:** See, also what happens is as a system Central Government under the bureau of cost and pricing, they work out a statutory minimum price, SMP price. What we as industry tell the Government is that if the SMP is done and which is on a calculated basis of the inputs and the cost to the farmer, then the state advised price must be in line somewhere with the SMP, so that is the sort of approach we are taking and we are hoping, especially in UP, where today Rs. 4,000 crore of investment is coming into the sugar industry and the stakes of not only the factories, but the welfare of the state of UP actually now depends so largely on sugar that unless and until there is a reasonable long term view to the pricing policy of sugar cane, the industry gets into a problem and if the industry gets into problem the farmer gets into a problem, and if the farmer gets into a problem the State Government gets into a problem, so it becomes a vicious circle. So we are hoping that the State Government will take a reasonable view of the cane price for this year.

**Sanjay Kohli:** Okay. Now, this massive investment which is coming in into UP, that is going to increase capacity by say, what kind of percentage are we looking for?

**J. K. Jain:** This will increase the additional sugar capacity by about two million tonnes a year, which is approximately 10% of the all India production, but what happens is that today a lot of sugar cane which is grown both for gur and khansari and other uses, a lot of that actually then starts coming into sugar factories, so that way frankly the feeling is that down the road even though this new capacity is coming, farmers will also change over to sugar cane those who are growing other crops today, and in the medium term actually there should not be a problem of cane availability, and let me put it in this way, frankly, as far as our four factories are concerned, two existing and two new ones coming up next year, we are actually in central UP where already the concentration of cane is low, so the challenge before us is how to increase the area under sugarcane and how to ensure we get a large part of that increased sugarcane crop to our own factory so in fact for our four factories our cane staff is very extensive and we have a very strong cane development and cane growth program, which is implemented in all the four factories. As we mentioned last time also that our estimation is in the year 2007-2008, when all the four factories are running, then our four factories together should crush almost 500 lakhs quintals of cane, and we are not estimating any problem in getting this cane in the year 2007-08.

**Sanjay Kohli:** Okay great. Let the others ask questions. I have two follow ups on ethanol and your Hariyali Kisaan Bazaar but let the others ask, I will come in later for the follow up.

**Ajay Shriram:** Okay, thank you.

**Moderator:** Thank you very much Sir. Next is Mr. Vikram Suryavanshi from Karvy Stocks.

**Vikram Suryavanshi:** My question is regarding that, you are planning to have a distillery for your additional sugar factories, so I just want to understand about them because I am getting some media reports saying that there is a reluctance by the petroleum

companies to pick up ethanol for 5% blending, so why there is a reluctance by petroleum companies to go for ethanol blending?

**Ajay Shriram:** We have had a discussion with the Indian Sugar Mills Association had a in depth discussion with the Petroleum Ministry also, and in fact they have had a meeting with the Prime Minister on this matter also, and everyone now realizes that a biomass based fuel in the longterm is very desirable for any country. If one takes a country like Brazil where today they have got what they call the flexi-fuel car where cars can run on zero ethanol gasoline or 100% ethanol as gasoline. They can do that. The reluctance is not so much there in terms of the product, it is more in terms of a pricing policy and it is possibly a negotiating strategy also by the oil companies, one does not know, but our feeling is, after discussing with Government that the long term ethanol would be a important product in meeting the total gasoline demand for our country.

**Vikram Suryavanshi:** Are you getting other infrastructure bottleneck or something to go for petroleum companies rather than pricing policy?

**Ajay Shriram:** I do not think so, today frankly ethanol is transported in tankers, it is transported in rigs, so movement of ethanol is not a problem, and frankly speaking in case it is a viable business, frankly in a year or two infrastructure does develop, so in our view and in our Company's view, that it is not a problem in terms of the infrastructure. It is a matter of deciding when to do it for each company.

**Vikram Suryavanshi:** Okay, because I guess some pricing also, the price decided is Rs. 18.75 per litre for ethanol and if you look at the petroleum prices, there is a huge difference, so on pricing front also, Rs. 18.75 is also attractive for petroleum companies, so still they are not picking up, so I just want to understand what are the other issues as well?

**Ajay Shriram:** Some petroleum companies are picking up, but it has not yet come across as a fully established all India policy. Some states are moving faster, some are moving slower, so that is the reason, but down the road, we are fairly optimistic that ethanol is a good viable alternative to crude oil, and it can reduce our dependence on crude and consequently make India more self sufficient.

**Vikram Suryavanshi:** Okay, thank you. Just one additional question, what are the average working days you are expecting for your additional two sugar plants?

**Ajay Shriram:** Well, frankly, like our two factories today which runs between 170 to 180 days a year, we are planning the same thing for our two new factories, of course, it happens season to season if there is a less crop or a higher crop it runs 10-15 days more or less, but on an average it is about 170 to 180 days.

**Vikram Suryavanshi:** Okay. Thank you very much.

**Ajay Shriram:** Thank you.

**Moderator:** Thank you Sir. Next is a follow up from Mr. Sanjay Kohli of Karma Capital.

**Sanjay Kohli:** Thank you. Actually, my question has been answered, and Hariyali, I have just seen portion of the press release on the number, I wanted to ask number of

stores, how you are going to ramp that up by end of next, so end of this fiscal year it is going to be about 30 stores?

**Ajay Shriram:** That is correct.

**Sanjay Kohli:** Okay. And what about end of calendar year 2006?

**Ajay Shriram:** See, we are actually now in the phase where we decided that we have to ramp up the number of stores, so we are in fact gearing up our own organization and putting things in place, and from the financial year 2006-07 onwards, we are planning to ramp it up by 30-40 stores per year, so we do want to aggressively move on growing this business in the years to come.

**Sanjay Kohli:** Okay. And one thing on your debt equity ratio, that your target debt equity ratio, will be what?

**Vikram Shriram:** Actually, we track more than the debt equity, we track the debt to PBDIT and we target to keep that within roughly the range of 2.5 and that normally translates to a debt equity of around 1-1.2.

**Sanjay Kohli:** Right, so it is not going to go beyond 1.2-1.5?

**Vikram Shriram:** No it will be in this range, longterm debt, because in short term because of sugar business' cyclicity, working capital increases temporarily substantially, so we do not account that. That is fully covered by reverse stocks. It is a longterm debt, we try to keep in the 1-1.2 region, or the PBDIT to longterm debts in the 2.5 region.

**Sanjay Kohli:** Okay. Thank you.

**Moderator:** Thank you very much Sir. Next is a follow up from Mr. Sachin Kasera of Pioneer.

**Sachin Kasera:** My question is regarding this fertilizer division. Your press release mentions that the profitability was impacted because of higher conversion costs and the same was not reimbursed by Government, could you explain a bit on that front basically? How does that work basically?

**Ajay Shriram:** See, when the Government changed over the pricing system from RPS to what they call the NPS, the new pricing system, they froze the cost based on 1999-2000 data for all the urea plants, and thereafter only the changes in the variable cost, which is the cost of the naphtha or gas or coal, etc., has been reimbursed, and the other cost, which are basically the cost of chemicals, catalysts, salary and wages, including packing bags, they have been frozen at those old levels. What happens, for every fertilizer company it means that as these costs are escalating, because the polymer prices for example jumped significantly in this period, so the cost of bags went up significantly, to that extent you keep on having a cost escalation without any way to pass this on to the market.

**Sachin Kasera:** How much impact that has or would have roughly, say on a quarterly or yearly basis?

**Ajay Shriram:** About Rs. 2 crore for the year.

**Sachin Kasera:** Okay, but there is no way out of this basically?

**Ajay Shriram:** Rs. 2 crore is excluding packing bags, and another about Rs. 3 crore for bags. It is almost Rs. 5 crore a year at this point in time.

**Sachin Kasera:** So that is the additional cost we have to absorb?

**Ajay Shriram:** Absolutely, see we cannot change the price of urea that we sell to the farmers, so if the Government does not give us enough subsidy, you just end up absorbing this increase.

**Sachin Kasera:** But, as you said this is happening to everybody, so how does, because the cost would keep on increasing every year, so how is the....

**Ajay Shriram:** As you are aware, there is a committee constituted under Dr. Alak, which is reviewing the entire pricing of fertilizer which will be applicable effect from April 1, 2006. The industry through the Fertilizer Association of India has made several representations including focus on these issues of frozen costs, so this committee is yet to finalize its report and recommendations, so we hope that some of the issues would be taken care of in this respect. As far as our own setup is concerned, you would be aware that amongst the naphtha based urea producers, we have the lowest cost structure and this would be further improved because we have already started the process of conversion from naphtha to LNG and we expect this to be over by September next year, so that brings us in terms of overall cost structures we are then very competitive with the rest of the industry.

**Sachin Kasera:** Okay. One question regarding your plastic business, while I understand that there has been a certain pressure in terms of cost and realization, even if one were to compare the performance in respect to June quarter, when we had almost similar volumes and in fact the realization has been better by around 2-3%, the profitability has almost declined by 50% as compared to around Rs. 10 crore we have done only Rs. 5.4 crore in the quarter?

**Ajay Shriram:** Two-three main reasons, one is the very sharp increase in cost of raw materials including hydrochloric acid, which is basically the chlorine prices and the cost of power, which is coming through coal and charcoal material. You see, the chlorine to our PVC operations is costed at the market rate. We have a very transparent transfer pricing system and each raw material fed to another plant is always at the market price basis.

**Sachin Kasera:** But I understand that as compared to June, in September at least the issues have been slightly softer that is what the press release mentions, so even if it was being sold say at market prices as compared to the June quarter, the costs of chlorine would have been lower?

**Ajay Shriram:** Well it will always reflect one month later. If you apply the prices prevalent in the previous month, so you will see the impact more in this quarter October

to December, and the XWRs are practically the same, 42,300 to 43,000, so there is not much difference in the price realization.

**Sachin Kasera:** In terms of this charcoal, how is the correlation, means how much impact can charcoal have on our profitability basically, what is the per ton of approximate consumption of charcoal or coal that we have?

**Ajay Shriram:** I cannot give you an exact number at this point of time, but typically charcoal costs about Rs. 6,300 a ton and the carbon material costs like charcoal and petroleum coke they constitute about 25% of our total cost of production of PVC. So, any 10% variation there will have about 2-3% variation in the cost of PVC.

**Sachin Kasera:** Okay, and could you give me the breakup of this quarterly revenues that other segment which you club basically between say the Fenesta and others?

**Ajay Shriram:** See that is not required and I do not think it will be right to give it in this forum till we make it public.

**Sachin Kasera:** Okay. And one thing you mentioned about some forex losses and fertilizer shutdown in second quarter of last year, so what was the impact of that?

**Vikram Shriram:** On this issue of fertilizer, let me clarify. Every factory has to take a shutdown every 18 months to two years to clean up the system, change the tubes, the catalyst has to be changed, and things like that, and that ranges from between 18-19 days to 25 days depending on the extent of work. So in our case we took the shutdown last year that is why we are not having it this year. We will take it again next year when we will actually link up and sort of connect up our LNG conversion to the next year shutdown which is going to be required based on the plant operating system. On the foreign exchange, I will ask JK to answer that.

**J. K. Jain:** See in the last six months, the total debit on account of forex fluctuation was about Rs. 7 crore or so, which had come in the first quarter largely, and on this fertilizer I would only like to add that there are two impacts, one is the production shortfall and second is the expenditure. For the year as a whole, there is no production shortfall even in a shutdown year, but yes, it does have quarter-to-quarter variations because in the quarter in which you do take shutdown, there is production shortfall, and that is made up in the next quarter actually. For the year as a whole, the production does not change very significantly.

**Sachin Kasera:** Okay. Thanks a lot.

**Moderator:** Thank you very much Sir. Next is Mr. Ranjit Kapadia from HDFC.

**Ranjit Kapadia:** I have two questions; one is what the ECU realization during the quarter was and how you see the current quarter?

**Ajay Shriram:** Okay, we are just getting that. Second question....

**Ranjit Kapadia:** What is the situation in the current quarter, how do you see the second half, ECU?

**Ajay Shriram:** We are just getting the figures of the ECU, but the ECUs in this quarter have come down marginally compared to previous quarter, which was actually expected also because the previous quarters the ECUs were extremely high. One second, I will just get the figures...

**Ranjit Kapadia:** Yes.

**Ajay Shriram:** See if one takes Q2 of 2005, the ECU realization was 18,128. If one takes Q2 of 2006, the ECU realization is 21,158. And Q1 was in the range of 25,000, frankly if you compare again let us say half year 2005, it was 17,350 and half year 2006 it was 23,198.

**Ranjit Kapadia:** And, you have mentioned that the international prices are stable and this is going to impact the Indian prices also, so in the first half if we have 23,200 realization, so the second half should also see the good prices in the same order, or what are the reasons why the prices have suddenly fallen?

**Ajay Shriram:** There are two-three things, one is as I mentioned little earlier, first quarter the prices were extremely high which was much more, it was in the range of 25,450, which is exceptionally high price. Frankly speaking as a industry point of view, we do not want the price, which is too high because ultimately that starts affecting demand, so from a long term sustain point of view, a reasonable price is more desirable for an industry rather than having a peak, which actually, frankly we feel that reasonable price has a long term sustained growth potential. So considering that, for this second half year, our feeling is that because of new capacities having coming also into the system that the prices will be around the same or what we have seen in this quarter, in Q2. It will not be much higher. We do not think it will be much higher.

**Ranjit Kapadia:** Sir, but if you see the demand from the aluminium industry, they have said that they are going to grow at more than 50% in the capacity utilization. The capacity has been increased by about 50% and the paper industry is also seeing a double-digit growth, so in terms of this the prices should be higher level than the current prices?

**Ajay Shriram:** No, what you are saying is absolutely right, but the growth of aluminium and the increased demand of paper and all is going to come in a staggered period over the next couple of years, because aluminium is a very heavy investment required for increasing the capacities and we are also very happy that aluminium industry in India is increasing so much, because that gives a stability to the caustic soda demand. So we are working on this and we do feel that, over the next couple of years, it is a good business and it is going to be a stable business, but quarter-to-quarter price variations will happen and the other issue, which is a little bit of an uncertainty is what is going to happen to the duty in February next year, the import duty, that is something which will open, but in terms of demand from the market, you are absolutely right over the next couple of years, with the growth of consumption by the consuming industry, we are quite positive that we will have a reasonable realization.

**Ranjit Kapadia:** And, do you feel any threat from China at this point?

**Ajay Shriram:** Not really, frankly, what happens is people who can import it against an import license that is where there is always the feeling people get from outside, but

industry is also taken a view that those who can get it from outside is better for the domestic industry to supply to them rather than let the material come from outside and that has happened in the case of Nalco and Balco and few others, so industry is aware and alive to the position and I do not think industry will have to go too much out of line.

**Ranjit Kapadia:** Okay. Thank you so much. I wish you all the best.

**Ajay Shriram:** Thank you.

**Moderator:** Thank you very much Sir. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Ajay Shriram, Chairman and Senior Managing Director of DSCL for final remarks.

**Ajay Shriram:** As closing remarks, Ladies and Gentlemen first I would like to thank you all for coming on to this conference call today. As mentioned, we remain optimistic about the medium and longterm growth prospects and business prospects for our Company. We will be in regular contact with you to keep you updated on all our corporate developments and business progresses in due course in the future. In case, you have any questions, Mr. Nitin Tandon is there. He can always help out, but it is a pleasure again to interact with you and look forward to interacting again in the future. Thank you.

**Moderator:** Thank you 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 and have a nice day.

- ENDS -

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