

DCM SHRIRAM CONSOLIDATED LIMITED (DSCL)**Q2FY07 Analyst/Investor conference call****November 06, 2006**

Moderator: Good afternoon ladies and gentlemen, I am Monali, the moderator for this conference. Welcome to the DSCL conference call. At this moment, all participants are in listen-only mode. Later we will conduct a question and answer session. At that time if you have a question please press star (*) and one (1) on your telephone keypad. Please note that his conference is being recorded. I would now like to hand over to Mr. Abhinandan Singh of Citigate. Thank you and over to you sir.

Abhinandan Singh: Thanks, and good afternoon every one and welcome to DSCL's H1 FY2007 conference call. We have with us today Mr. Ajay Shriram, Chairman and Senior Managing Director, Mr. Rajiv Sinha, Deputy Managing Director, and Mr. J.K. Jain, Chief Financial Officer, of the Company.

We will begin this conference call with opening remarks from Mr. Ajay Shriram and Mr. Rajiv Sinha after which we will have a Q&A session. I would like to now invite Mr. Ajay Shriram to give us a brief overview of the operations of the Company during the period under review. Over to Mr. Shriram.

Ajay Shriram: Thank you Abhinandan. Good afternoon ladies and gentlemen, I welcome all of you once again to the DSCL's Q2 and half year FY2007 conference call. I hope by now all of you have had the opportunity to go through our results for the quarter and half year ended 30th September 2006.

Our plastics, chemical and cement businesses have done well and have contributed significantly to our earnings during the quarter. The sugar business has recorded reduction in operating margins with the price increase being much lower than the cost increase. Our value added businesses like Fenesta and Hariyali Kisaan Bazar continue to grow as per plan and we expect them to become major growth drivers in the future.

Our extended capacities at Kota for chlor-alkali, PVC resins, calcium carbide and power have contributed positively towards revenue in the current quarter. The chlor-alkali production is now based entirely on modern environment friendly efficient membrane cell technology. The PVC resin capacity and calcium carbide capacity increased to 200 tons per day and 340 tons per day respectively. We have also increased our captive power capacity to 125 MW with the plants now operating at above 100% capacity which enables us to export the surplus power generated to the State Electricity Board.

We consider our sugar business including co-gen as a key growth driver and have made investments to augment its capacity and efficiency. The capacity expansion to 33,000 tons a day is nearly complete and should become operational in time for the coming crushing season. However, the profits from this business were low during the period under review mainly due to two reasons, firstly, the sales price increases were lower than the increase in costs. Secondly, sales quantities were lower because of lesser carried over stocks. We expect higher volumes and better efficiencies from the extended capacities going forward. Our co-gen power plant commissioning is progressing on schedule and we will have a capacity to export 27.5 MW of power to the state grid in the coming sugar season.

The fertilizer business had lower sales and consequently losses as the plant took a planned shut down for 45 days to enable conversion to LNG and to carry out normal overhauling undertaken once every two years. The resultant loss of about Rs. 16 crore will be partially recouped in the remaining financial year.

Coming to our value added business of Hariyali Kisaan Bazar, our rural retail initiative which aims at meeting all the needs of the rural population from farming to consumer goods continues to contribute favorably to our revenues. We added 9 new stores during the quarter taking our total number of stores to 40 as on 30th September 2006. Going forward we are confident that our Hariyali business will continue to contribute strongly to our revenues and we plan to increase our total stores to about 50 to 55 by the end of this financial year.

The Fenesta business witnessed a healthy growth performance during the quarter under review. For the first time during the quarter under review we received a single order of 70,000 windows from a large builder. The Fenesta business order book as on 30th September 2006 stands at 144,000 windows compared to 40,000 windows as on 30th September 2005. In order to meet the increase in demand we expanded the capacity of the fabrication unit at Bangalore and are also stepping up a fabrication shop in Chennai.

We expect all our businesses to continue to record a good performance which in turn will contribute positively to our revenues and enable us to deliver superior stake holder value. With that I would now like to invite Rajiv to take you through the financial numbers of the Company for Q2 and H1 of 2007. Thank you.

Rajiv Sinha: Thank you sir. Good afternoon ladies and gentlemen, I would once again like to thank you all for joining us today on this conference call. I will quickly run you through our numbers for this quarter and half year ended 30th September 2006.

For the quarter our net revenues increased by 19% to Rs. 666.4 crore compared to Rs. 558.9 crore in the Q2 of FY2006. For the first half of 2007, our revenues increased by 18% to Rs. 1,346.9 crore compared to Rs. 1,142.9 crore in the first half of financial year 2006. Our profits for the quarter and half year under review were lower due to the planned shut down for 45 days in our fertilizer plant to Kota to enable its conversion from naphtha to LNG and to carry out normal overhauling which is undertaken once every two years. The PAT for the Q2 FY2007 was down by 59% to Rs. 10.8 crore compared to Rs. 26.1 crore for Q2 FY2006 resulting in an EPS of Rs. 0.65 for this quarter. PAT for the first half of FY2007 was down by 37% to Rs. 41 crore compared to Rs. 64.7 crore for the first half of FY2006, resulting in an EPS of Rs. 2.47 for the first half of this year.

Now let me take you through the business-wise financial numbers for the quarter and the half year 2007. During the quarter and the half year under review our chemicals business revenues stood at Rs. 90.14 crore and Rs. 179.94 crore respectively. The PBIT for this business was lower by 7% to Rs. 32.3 crore during the quarter compared to the previous quarter and was lower by 19% to Rs. 66.49 crore during the first half compared to the corresponding period. Earnings for this business were lower due to lower price realization and increase in cost of furnace oil which is the key input used in the manufacture of chlor alkali in one of our plants. We are in the process of considering alternative economically viable fuel options such as imported coal to generate power in Bharuch. On the other hand the Kota facility is already self sufficient with economical coal based power.

The revenues of the plastic business increased substantially by 87% to Rs. 86.15 crore during the second quarter of this year compared to Rs. 46.06 crore last year. For the first half of this year the revenues increased by 66% to Rs. 157.85 crore compared to Rs. 95.5 crore in the last half year. The PBIT of the plastics business in Q2 of this year increased by 194%. The increase in

revenue and PBIT was mainly due to the enhanced capacities in this business and better price realizations.

The PVC resin capacity which had increased from 115 tons per day to 175 tons per day in Q3 of financial year 2006 was further increased to 200 tons per day in the current quarter.

Our fertilizer business witnessed a decrease in revenue by 52% to Rs. 71 crore during the second quarter 2007 compared to Rs. 148.71 crore in the corresponding previous quarter, a loss of Rs. 13.21 crore at PBIT level as compared to a profit of Rs. 7.66 crore last year. This was due to a planned shut down for 45 days at our Kota plant to enable conversion from naphtha to LNG as a feedstock and to carry out normal overhauling undertaken once in every two years. The resultant loss of Rs.16 crore will be partly made up in the remaining part of the year.

The revenues of our sugar business for the second quarter of current financial year were lower by 10% at Rs. 85.38 crore compared to Rs. 95.24 crore in the corresponding previous quarter. The revenues for the first half of this financial year were slightly lower at Rs. 181.48 crore compared to Rs. 183.31 crore in the corresponding previous period. Margins for this business were lower at 11% for Q2 in this financial year compared to 13% for the corresponding quarter last year. This was due to an increase in capacities across the country leading to a higher production and pressure on sugar prices and cost push. We expect to complete our sugar crushing capacity expansion to 33,000 tons per day by the coming sugar season.

Our traded products business revenues increased by 81% during the Q2 of this financial year to Rs. 262.33 crore compared to Rs. 145.05 crore in the corresponding previous quarter. Revenues for the first half of this financial year were higher by 39% at Rs. 421.90 crore compared to Rs. 303.75 crore for the corresponding previous period.

The earnings for the first half year were under pressure as the company in Q1 of the current financial year had a debit of Rs. 4.52 crore relating to the previous year consequent to notification of lower than expected concessional rate on phosphatic and potassic fertilizers for July 2005 to March 2006 declared by the Government of India. Further margins in DAP and MOP suffered because of uncompensated cost increases by the Government and very high subsidy arrears which continue till date leading to higher interest cost.

The Company's interest cost were higher primarily due to the following reasons, firstly, high subsidy arrears both for our traded products as well as for urea, secondly an increase in the borrowing cost, and thirdly higher debt raised to implement several capacity expansions. Similarly the depreciation costs were higher due to several capacity expansions implemented over the last few quarters.

To conclude, I would like to add that all our businesses continue to perform well given the integrated nature of our operations and our enhanced capacities. We look forward to delivering a strong operating performance in the subsequent quarters. We would now be happy to answer any questions that you may have. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. If u have a question please press *1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the hash key. To ask a question please press *1 now. First in line we have Ms. Parul Patel from Stratcap Securities (India) Pvt. Ltd.

Parul: Good afternoon Sir. Sir you just mentioned about your expanded sugar capacity which will come on stream in the coming sugar season. What is the targeted volume you are looking at for the next crushing season, I mean at what recovery rate? Is it 9.5%?

Ajay Shriram: Well I would say the recovery for the coming season should be around the same as last year, but it will vary from factory to factory. Our Ajbapur factory normally has a higher recovery at about 10%, Rupapur has a little lower recovery at about 9.2% and 9.3% and our two newer factories, Hariwan and Loni, which will be commissioned in the next two week's time, there the recovery may be a little lower because there it is still the first time that in this area any one has started buying cane for sugar and I think the cane development work, even though we have done quite a bit of it, but we expect it to be plus 9% in any case, but I think it is only after having been through the first season in a new area that will we know exactly what it looks like.

Parul: Alright, thank you Sir.

Ajay Shriram: Thank you.

Moderator: Thank you very much maam. Next in line is Mr. Nishit Master from Anand Rathi Securities Pvt. Ltd.

Nishit Master: Hello. Good day Sir.

Ajay Shriram: Good afternoon.

Nishit Master: Sir there were 2-3 questions which I had. One is that in the Hariyali Kissan Bazar what part of your revenues does come from Hariyali Kisaan Bazar as of now?

Ajay Shriram: Well at the moment frankly it is comparatively small because we have got only 40 shops and as I mentioned earlier we have added 9 this quarter. You know ultimately what happens is I would say over let us say a two year timeframe, each shop excluding the fuel sale, because fuel is a very high volume low margin, and high value and low margin, so excluding that, I think each shop will give between Rs. 3 to Rs. 5 crore as a turnover. So I think at the moment it is small, but going down the line it is expected to increase dramatically as the number of shops keep going up.

Nishit Master: Okay. Sir in the sugar division what would be the average realization for this quarter and expected realization for the coming season?

Ajay Shriram: Well for the last quarter about Rs. 1,740 has been our average realization. Now frankly speaking it is very difficult to give a projection for the future as you may have read in the papers also that the government is saying they will now open exports once again. Secondly, I think it is a very right step because the expected sugar production is also expected to be almost 23 million tons. So considering that, I think down the road if exports also open up, we expect it to be reasonable hopefully.

Nishit Master: Okay. Any increase you see on the procurement side for the sugarcane?

Ajay Shriram: Yes, that is something which is not yet been declared for the state of U.P. That is a worry I must be honest, because there are elections coming up in February/ March in U.P., but the industry is very active in dialogue with the Government and to explain to the Government saying that you know to keep the farmers viable, to keep the industry viable rationality has to be brought about and the Government did seem receptive, at least in the discussions held, so we don't expect it to go too wild. But we do expect, yes there will be some increase, I mean that is inevitable.

Nishit Master: Okay, Sir and the final question on the fertilizer business, the accruals from the Government have increased. As in, what months have they paid the subsidy till?

Ajay Shriram: Well I will put it this way; you know the normal urea subsidy is about Rs. 35 – Rs. 40 crore a month. As on date our total outstanding for our urea manufacturing as well as for DAP and MOP, which we import and sell, for all these three products are dues from the government are a little over Rs. 300 crore.

Nishit Master: Okay, so out of which urea will be approximately what percent?

Ajay Shriram: Urea is about Rs.110 crore and the balance is DAP and MOP.

Nishit Master: Okay, thank you Sir.

Ajay Shriram: Thanks.

Moderator: Thank you very much Sir. Next is line is Mr. Amol Kotak from ASK Raymond James Securities (India) Ltd.

Amol: Yes. Good afternoon everybody.

Ajay Shriram: Good afternoon.

Amol: I wanted to know about the recent media report suggesting the sale of surplus land; can you elaborate on that, first? And how much could be the realization? Plus what the management wants to do with the money?

Ajay Shriram: Well, you know it is like jumping the gun I must be honest. But to give a little history on how we have got this, we had to relocate our factory in 1996 based on the Supreme Court order and thereafter we worked towards just relocating our factory which we have done in Tonk in Rajasthan, for the last years, we have applied to the Government for permission to redevelop the land, based on the permissions of covered area and square foot etc., The Government allowed us as per law, for the last couple of years people have been approaching us of and on and have shown interest in the land. As of now we have no concrete proposal, no concrete deals which we have entered into. We are still moving to develop the land in house in the Company and that is the position as of today.

Amol: And what could be the current rate there?

Ajay Shriram: I think the rate is actually quite variable, you know I think the residential may range about Rs. 7000 – Rs. 8000 a square foot somewhere in that range. It could go up also. You know I will be honest, a project like this will take four years at least, 3-4 years, to fructify totally. We can build just under 4 million square feet, so it will take about 3-4 years to fructify and the rates would vary in that. So it is difficult to give a rate right now. I think today the rate is about depending upon the type of construction and the type of building, the type of size etc., it ranges I believe between Rs.7000-Rs.8000 to Rs.15,000 a square foot, that is the range over there.

Amol: But the report suggests that the management wants to sell the land.

Ajay Shriram: No, that's not right. As I mentioned to you a lot of people have approached us of and on, we have discussions with many people and we learn a lot from them also on what is happening. So we have not had any discussion or agreements with anyone in this direction.

Amol: One more question is, what would be the current debt including working capital?

J.K. Jain: Including working capital it is Rs. 1,200 crore out of which long-term is about Rs.850 crore.

Amol: Rs.850 crore?

J.K. Jain: Yes.

Amol: Okay, thank you very much.

Ajay Shriram: Thank you.

Moderator: Thank you very much Sir. Next in line is Mr. Ravindra from Ventura Securities Ltd.

Ravindra: Hello sir. I have two questions. One is could you please throw some light on the realizations in your caustic chlorine business, what it had been and what it is going to be for say the next two quarters? The second one is what is this LNG tie up plan for the change over from naphtha to LNG?

Rajiv Sinha: Yes, in the chemicals business if you would recall that in the last year in the first half we had seen extremely high prices in ECU and I think the average for the first half last year was Rs. 23,198. These prices came down in the first half of this year at about Rs.20,000, and currently we are continuing just under Rs.20,000, anywhere between Rs.18,000 to Rs.20,000 depending on our different locations.

Rajiv Sinha: Sorry I didn't get your question on LNG.

Ravindra: What are all the sourcing tie ups for LNG?

Rajiv Sinha: At this moment the pipeline for LNG is likely to be ready and laid down by GAIL by some time in January next year, which is 2007 and we are in contact with GAIL and also through our department of fertilizer, the way it looks is that initially the LNG available to us will be more on spot prices basis, which will be then followed up by a long-term agreement and we are currently in the process of discussions with the relevant companies and the department of fertilizer to finalize this.

Ravindra: Sure Sir, thank you very much.

Rajiv Sinha: Thank you.

Moderator: Thank you very much Sir. Next is Mr. Pankaj Tibrewal from Principal PNB Asset Management Co. Ltd.

Pankaj: Good afternoon Sir.

Ajay Shriram: Good afternoon.

Pankaj: Just on the sugar business, I had a few questions which have already been asked. On the recent ethanol tendering which has been done by the oil marketing companies, have we participated in that?

Ajay Shriram: No, we have not participated because we have not put up an ethanol plant. Of course in the last two years we have been expanding our sugar capacity and co-gen of power.

Pankaj: Okay, right Sir, thank you.

Ajay Shriram: Thank you.

Moderator: Thank you very much Sir. Next is Mr. Sachin Kasera from Pioneer Intermediaries Pvt. Ltd.

Sachin Kasera: Yes Sir, good afternoon.

Ajay Shriram: Good afternoon.

Sachin Kasera: Sir, my question is regarding the co-gen of the sugar plant; you had mentioned in the press release that one of the expansions is through the exportable capacity of 27.5 MW, if I see in the previous press release the figure mentioned was a little on the higher side. Is this some change of configuration?

Ajay Shriram: No, let me clarify. See in the last season we had given about 7.5 MW. In this expansion we have undertaken, this increased the co-gen capacity to 27.5 MW, we are in the process of expanding this even further and we expect by the next season we will export over 40 MW of power to the state government, no 38 MW of power is the plan in the next season to export. So this season and the next month's time once all the factories are operational we should export 27.5 MW.

Sachin Kasera: Okay, so by next season you should be able to export around 38 MW?

Ajay Shriram: 38 correct.

Sachin Kasera: Okay, secondly Sir regarding the Fenesta division, you mentioned that you have an order booking of close to 144,000 windows, would you like to put a figure to it in terms of rupees sir?

Ajay Shriram: Revenue?

Sachin Kasera: Yes.

Rajiv Sinha: I would just like to clarify that the order book and order execution are two separate things, because when we get an order from a builder, the actual execution may take several months in future.

Sachin Kasera: Yes, I was just asking from the value of the order book perspective that is for 144,000 windows what is the approximate value?

Ajay Shriram: Well let me put it this way Sachin, this 70,000 window order which we have got from a group in Bangalore that is valued about Rs. 26 crore. But as Mr. Sinha was just now saying you see because for each window the size varies dramatically you know 2 feet by 2 feet window and there can be a 6 feet by 3 feet window, so the size varies, but I think on an average this gives an idea. That this for a 70,000 order it is about Rs.26 crore.

Sachin Kasera: Okay, so the total order booking of close to 1.5 lakh windows should be around Rs.50 – Rs.55 crore?

Rajiv Sinha: In fact probably slightly higher because as you rightly said the nature of the size could differ.

Ajay Shriram: Yes, so may be a little higher, frankly I will be honest; I don't have the value right now.

Sachin Kasera: Sure not a problem sir. And secondly Sir at what level of you know roughly in terms of volume do we start to break even in Fenesta?

Ajay Shriram: Well, as you know I think it is dynamic, but I think as an indicative level I think once we come to about 10,000 – 12,000 windows a month I think then we will find that we are breaking even across the board.

Sachin Kasera: Okay, and Sir what would be the present level of volumes that we are doing on an average?

Ajay Shriram: Well, today I think we are running on an average at about 8000 windows a month, and as we mentioned that our Bangalore unit is being expanded as well as once the Chennai unit comes in, by that we will increase our capacity quite substantially. So it should give us a much more positive position.

Sachin Kasera: Okay, so basically it seems like you are pretty close to breaking even at 8000 windows?

Ajay Shriram: Yes, I think in the next 6-8 months time, by the next financial year we should be much better.

Sachin Kasera: Okay and Sir regarding Hariyali Kissan, any number of outlets that we are looking at say by end of March or say any after from 40 to 80 or any timeframe that you are looking at basically?

Ajay Shriram: Well, at the immediate we are planning and hoping that in the next 2 years time we should have between 180 to 200 shops.

Sachin Kasera: Over and above existing 40 Sir?

Ajay Shriram: From existing 40.

Sachin Kasera: Okay, but anything say by March of this year anything that you are looking at?

Ajay Shriram: We are expecting about 50 to 55.

Sachin Kasera: Okay Sir, another 15 may be in the next 6 months.

Ajay Shriram: Correct.

Sachin Kasera: And Sir, have any of these 40 started to breakeven, means of this 40 I understand that 8 to 10 would be something like 2-3 years old now, so have those started to breakeven?

Ajay Shriram: Yes, individually at a shop level quite a few shops, they have already reached breakeven, but if one takes the overheads of the corporate office for Hariyali etc., that will require a larger number of shops and a higher turnover.

Sachin Kasera: But at least would we be able to breakeven at the cash level Sir, basically in case of Hariyali Kissan in March 2007?

Ajay Shriram: I think a retail business is a longer gestation period business and is one of those where the quicker you expand the more losses you incur in the immediate. So you know with more stores coming in it is bound to draw a lot more cash into the business, but I think in terms of getting the basic right for the business we are happy the way it is progressing.

Sachin Kasera: Secondly Sir, I believe that our model is primarily in terms of land ownership. Considering that the land prices have gone up significantly in the last one and half years, what is the outflow that we are expecting, what is normally the average cost that we are incurring for a new Hariyali Kissan Bazaar?

Ajay Shriram: I must be honest, that varies so much, because we have now gone into central India, south India, and are looking at all over, it ranges from Rs.10-Rs.15 lakh an acre to Rs. 45-Rs.50 lakh an acre and we are also looking at rental models now, we have already opened quite a few shops which are on a rented basis. So including both these deals that is how our growth will be much faster at a comparatively lower capital cost.

Sachin Kasera: Okay, Sir any indicative here that when you would like to see your cash breakeven basically?

Ajay Shriram: I think it is very difficult to say, I must be honest. We have worked out business plans, but as I mentioned retail is a capital-intensive, long-gestation business, but I think our focus to be honest with you is getting our fundamentals right, getting the product mix right, understand the customer correctly, so ultimately with more and more products we can give primarily the farmer and his family, the larger business turnover we will have.

Sachin Kasera: Okay and Sir my last question regarding cane crushing, what is the type of cane you expect to crush during the current season?

Ajay Shriram: Let me put it this way, last year we crushed about 180 lakh quintals of cane in both the factories and this year with all four factories we expect the combined crush to be about 350 lakh quintals.

Sachin Kasera: And Sir lastly any progress regarding the conversion to much cheaper or any cheaper fuel alternative in Bharuch? I believe you are working on some program?

Ajay Shriram: Yes, in fact Mr. Sinha also mentioned that, we are working on putting up a coal based power plant, so we have applied for permissions to the State Government and progress is moving well. We hope in the next couple of months we will have a clearance on that and will be in a much more concrete position to take forward the proposal to convert from furnace oil to coal, which we can import, and the advantage in Bharuch is that it is very close to the coast, so we can get coal at a fairly economical price.

Sachin Kasera: I think that would be fairly a long gestation Sir, may be around 18 – 20 months?

Ajay Shriram: You are right; it will take 18 – 20 months.

Sachin Kasera: And Sir what is the type of capacity you are looking at?

Ajay Shriram: We are looking at about 45 to 50 MW keeping a little margin for future growth. Today our requirement is about 28, between 25 and 30, and we will keep a little margin in hand.

Sachin Kasera: Okay, and Sir two more things, I recently understand that we are also looking in terms of a tie up for coal mines, I think we had applied, any progress on that Sir, what is the status there?

Ajay Shriram: Well, we are exploring various coal options all over the place, and we have in fact applied to the Rajasthan Government and they have recommended our case to the centre, so in fact we have been allotted at least we have been put on the primary list for giving a lignite mine in Rajasthan, so it is a small mine, about 10-12 million tons, but at least that will help us getting our captive source of energy for our Kota operation.

Sachin Kasera: Sir will that be sufficient enough the whole 125 MW that we have at Kota?

Ajay Shriram: Yes, it can be. That it can be. That is not a problem. And I mean for our requirement of 125MW today it can carry us forward for almost I think 12-14-15 years.

Sachin Kasera: Okay, and in terms of mining the lignite Sir, how far are we from in terms of approvals and in terms of timeframe.

Ajay Shriram: No, as I mentioned to you, you know the case has been recommended, we have not yet been allocated the mine, I think that process is on, I am not sure how long it would take, I think some months before that allotment actually happens by the Central Government. Once that happens then we will take up aggressively the issue of mining and transportation to our factory.

Sachin Kasera: So it is basically with the Central Coal Ministry?

Ajay Shriram: Correct.

Sachin Kasera: And Sir considering the extremely good patches of cement in Rajasthan, are we looking at any sort of aggressive ramp up either in cement capacity or putting up a grid etc. something like that in terms of diversification?

Ajay Shriram: No, we haven't looked at that. As you may be aware that in the last year itself we just expanded our capacity from 3 lakh tons to 4 lakh tons. As far our cement plant is really a pollution control plant that is coming from carbide and because it is a wet process, the technology for expansion and growth is not that easily available, so we have not looked at any further growth right now.

Sachin Kasera: Okay, and lastly sir, in terms of certain reports regarding we looking at setting up a plant of 250 MW, any truth in that and are we looking at any such diversification?

Ajay Shriram: No, we have not actively looked at any. You know I must say every company has a lot of projects in the pipeline, we keep debating and discussing, but we have not moved concretely on anything like that.

Sachin Kasera: Okay, that answers all of my queries, thanks a lot.

Ajay Shriram: Thank you.

Moderator: Thank you very much Sir. Next is Mr. Gaurav Kapoor from Birla Sun Life AMC Ltd.

Gaurav Kapoor: Sir good afternoon.

Ajay Shriram: Good afternoon.

Gaurav Kapoor: Sir I just wanted to know something more on your caustic chlorine business, there have been a lot of your competitors like Gujarat Alkalies or Grasim etc. all of them are increasing capacities, so where do you see your realizations going forward over the next 2-3 quarters?

Ajay Shriram: Well, you know the plants had expanded but the good thing is that growth is also taking place in the consumption. Today the consumption is growing by a little over 5% a year and I think it happens in many industries, especially in commodities, where you know the prices are good, people come in, it is like you know it make take a year or two you know to sort the balance out, but in the long term as a business chlor alkali which is really a fundamental building block for

the economy, caustic chlorine both of them, we see prices to be fairly satisfactory. In the next couple of quarters I think the way it is going, as we mentioned a little earlier, we are today a little under Rs. 20,000 in our ECU and we expect it to be in this range of Rs.18,000 to Rs.20,000.

Gaurav Kapoor: Okay, so you don't see any kind of '95-96 like situation where lot of capacities bunched up?

Ajay Shriram: No, I don't think that will happen also, and frankly you know today if you see the world market that is also increasing rapidly. Companies are exporting flakes, that is also happening. So within that we don't see any sort of a blood bath sort of a situation. But we see it running fairly okay.

Gaurav Kapoor: Okay, yes I think that is it.

Ajay Shriram: Okay.

Moderator: Thank you very much Sir. Next is Ms. Sanjugta Mazumdar from SK Sonthalia Securities.

Male participant: Hello, this is actually Sanjugta's colleague. I want to just ask a couple of questions regarding the land which have already been spoken about, just if you can might be repeat that and also wanted to know the total area of land to be developed?

Ajay Shriram: The total area we have is about 112 acres, out of which 68% we have to hand over to the government as a green belt, so we are left with 32% which is about 37 acres. So 37 acres is what we can develop and based on the FAR we can make about 3.8 million square feet.

Male participant: Okay, and what is the location again sir?

Ajay Shriram: This location is West Delhi; it is on Nagarkar Road in West Delhi.

Male participant: Okay, and is this completely in the company's books as of now?

Ajay Shriram: Yes, it is totally in the Company's books, but as you may be aware that 50% of this, we had an agreement with the Indorama group of Indonesia in 1996 and they paid the Company then to buy a 50% share in this project. So 50% today belongs to DSCCL and 50% belongs to the Indorama group.

Male participant: Okay, you mean the rights on this land, development rights on this land would belong 50% to the Indorama group?

Ajay Shriram: Yes correct. Anything on this land belongs to them 50%.

Male participant: I am sorry?

Ajay Shriram: Anything, you know, whatever happens to this land 50% belongs to them.

Male participant: You mean if the Company for some reason decides to sell the land, half the proceeds go to Indorama.

Ajay Shriram: Absolutely.

Male participant: Or whatever the, if the company decides to develop the land, then

Ajay Shriram: 50% of the revenues and the bottom line would go to them.

Male participant: Okay, and what is the investment that as you have already stated the Company plans to not sell the land and develop it internally, as in-house, which will obviously require some investments, so has the Company sort of, can you give us some idea of the ballpark amount of investment that you plan to make in this over the next few years?

Ajay Shriram: I must be honest, we have not made that sort of exercise, we are in the process of getting permissions from the Delhi Government on what we can do and I think once we have a more concrete or we come to a closer times when one has to actually start developing and marketing the project, I think then we will do a more detailed exercise on that.

Male participant: Right, so as of now the thought process within the company is to develop this 37 acres of land which can be developed, you said the FAR amounts to about 3.8 million square feet, that would be mix of residential/commercial?

Ajay Shriram: Yes to give a break up on this 3 million square feet is residential and 0.8 million square feet is commercial and flatted factories.

Male participant: Commercial and what?

Ajay Shriram: Flatted factory.

Male participant: Okay.

Ajay Shriram: So that is the break up permitted and IT parks.

Male participant: Okay, and Sir since I am not familiar with the Delhi geography, could you just give an idea how far it would be from the airport or from central Delhi?

Ajay Shriram: From Connaught Place it is approximately 8-9 kilometers and the metro also goes there from either side of our property actually, in due course of time I think one side is 500 meters and the other side is about 800 meters away, the metro line. So it is not that far from Connaught Place, it is fairly central.

Male participant: And just one final thing, the mode of development would be through the Company's books or would there be a separate subsidiary formed etc., and which will help the Company over time?

Ajay Shriram: To be honest, it is little early to get into those details. We will have to work out what is the most effective way to do it considering our joint venture partners who are involved with it also; because they have to see what is the best way out.

Male participant: And the investments to be made would be jointly by the joint JV partners in the development?

Ajay Shriram: Yes correct.

Male participant: Okay, thanks a lot Sir.

Ajay Shriram: Okay.

Moderator: Thank you very much Sir. Next is Mr. Prashant Poddar from Prudential ICICI Asset Management.

Prashant Poddar: Hello.

Ajay Shriram: Hello.

Prashant Poddar: Sorry, I think I was on mute. Okay, Sir what would this conversion to LNG mean for us in terms of profitability and when can we expect I mean to start running on this LNG?

Rajiv Sinha : I think as far as the profitability, given the current retention pricing scheme which the Government has, so called NPS, where the cost of feedstock is passed through, there is no direct impact on profitability. We would expect some small improvements in the energy consumptions etc., but it is a little early yet to freeze that. We of course hope that once we change over to LNG the stocking of naphtha, the level of subsidy which goes higher because naphtha as a feedstock, to that extent there would be some working capital improvements which will be possible. In terms of what it will do to improve the competitiveness of our urea, because as the government proceeds towards any form of decontrol over the next couple of years, the fact that our urea cost will come down and be comparable, the imported parity improves the fundamental competitiveness of our urea business.

Prashant Poddar: So it will be more of a, I mean de-risking strategy or may be preemptive?

Rajiv Sinha: Correct, and as we understand it the way the Government is formulating the policy for the so called NPS stage 3, there would be almost a penal provision if a plant continues to run on naphtha or furnace oil. So to that extent it safeguards us and de-risks us against that sort of eventuality also.

Prashant Poddar: And next quarter we are operating normally?

Rajiv Sinha: Yes, we are operating at full level now but we are continuing to operate at naphtha as I just explained earlier the pipeline will only be available sometime in January which is being laid by Gas Authority of India (GAIL) and thereafter it is a question of how and when we are able to get gas; gas is in great shortage at this point in time, but the department of fertilizer themselves are trying to see what best can be done and initially we expect this to be on a spot basis and later on when the gas availability improves there would be long-term agreements.

Prashant Poddar: But this plant running successfully would be contingent on gas availability?

Rajiv Sinha: As I said we will have a dual feed capability; the plant can continue to run on naphtha and as and when gas is available we switch over to gas.

Prashant Poddar: Okay sir, and you were mentioning something about the prices of caustic, that is, the ECU realizations were little below Rs. 20,000 last quarter.

Rajiv Sinha: Last quarter yes, the realization was about Rs. 19,400.

Prashant Poddar: And currently they are ruling close to Rs.18,000 – Rs. 19,000?

Rajiv Sinha: That's right.

Prashant Poddar: I mean is there a downward trend clearly or do you expect some kind of recovery in prices going forward sir?

Rajiv Sinha: I would say that at this point in time they are stable. We haven't seen much movement either way.

Prashant Poddar: This is not a concern thing, but I mean through some resources this NALCO is, the bid that NALCO has got for this chlor alkali this year is a little higher than last year, isn't that true?

Ajay Shriram: Yes I think you know in that what happens is NALCO, because they can import the material, so the industry actually quotes to them on a very different pricing basis all together, and you are right, I think NALCO's price this year was higher than last time. But I think this bulk purchase buy by large consumers who can otherwise import the material is not an indication of what the actual price of the industry is.

Prashant Poddar: Okay, so it can be higher or lower?

Ajay Shriram: Oh yes, it generally is higher than what price one gives to the bulk user.

Prashant Poddar: Yes so that is what I was getting an indication from say it should be typically higher and taking a cue from that the prices should be much higher than Rs. 20,000 this year.

Ajay Shriram: No I don't think so. You see it is difficult to say because as someone rightly mentioned a little earlier that there are new plants coming in but the consumption is growing. I think if you see a stable pricing regime between Rs. 18,000 and Rs.20,000, which we expect to happen, that should be okay.

Prashant Poddar: Okay, and at Rs. 18,000 to Rs.20,000 what is the gross margin, I mean EBITDA that is we are making?

J.K. Jain: See the quarter ending results are representative of that because that is what the ECU was in second quarter, and I think one more thing you need to understand is that this industry has two products, caustic and chlorine, NALCO takes only caustic soda, so it also depends on what happens to the chlorine prices.

Prashant Poddar: Okay right and Sir this Hariyali Kissan, what is the kind of sales growth that you are expecting in a single store and what is the kind of increase in number of stores that you are planning for say the next 2-3 years?

Ajay Shriram: Well, I think sales per store, as I mentioned earlier, we expect within 2-3 years depending on the location, we should reach a turn over of 3-5 crore per store. And we expect in the next 2 years to have between 180 to 200 stores.

Prashant Poddar: 180 to 200 stores from what?

Ajay Shriram: Correct. Today we have 40, we expect to be between 50-55 till March 2007.

Prashant Poddar: And definitely economies of scale at the corporate level will accrue from the number of stores increasing?

Ajay Shriram: Absolutely right.

Prashant Poddar: So at the store level as you were mentioning Sir that you are already breaking even in some of the stores, what costs are included and what costs are excluded, are when you are talking about store level?

Ajay Shriram: Well store level is all cost involved with the store, of people and lighting, and inventory carrying cost and everything and everything.

Prashant Poddar: Only the corporate costs?

Ajay Shriram: Correct, you see at the central level of our Hariyali there are sourcing issues, the branding issues, the marketing issues, the IT issues, all these things, they are part of these sort of a central office of the Hariyali business, but otherwise everything is the store level, everything at the store level is a store cost.

Prashant Poddar: So at what level of say sales for the full I mean for all the stores taken together would you break even at the marketing cost, I mean at all the cost levels?

Ajay Shriram: It is difficult to say, I must be honest. I will not be able to give you a figure on that. But at the store level we expect between Rs.3-Rs.5 crore when we reach that the store level is becoming positive.

Prashant Poddar: So 2-3 years we will break even?

Ajay Shriram: For a store, store- wise.

Prashant Poddar: Store- wise, okay. That is all Sir, thank you very much.

Ajay Shriram: Okay, thank you.

Moderator: Thank you very much Sir. Next we have a follow up from Sachin from Pioneer.

Sachin: Yes, this is Sachin here. Just two questions on the industry level, one thing is what is the outlook on the plastics business going forward and also on the sugar sector, sugar sector with a view of the pricing on the sugar cane and also there are some reports of some production loss in Maharashtra due to this uneven rains. Your views on these two.

Rajiv Sinha: As far as PVC pricing is concerned, currently the prices have become soft due to the lower prices being quoted particularly from China, but the overall situation is that we expect this year in India to have marginal growth, but that is coming on basis of almost 20% plus growth in the last financial growth and there have been hardly any new capacities other than our own which has been added to the total PVC capacity. So outlook continues to be I think in terms of demand supply quite robust, and we would see variations because of changes in the international prices, particularly in the last month and a half, but we do expect that this situation would improve by January of the first quarter of the next calendar year.

Sachin: Okay, but let us say from second quarter to this October-November, how much has the prices been down, in PVC?

Rajiv Sinha: I think when you are saying from September end to November now?

Sachin: Yes.

Rajiv Sinha: Well, I think the prices are down by almost about 10%.

Sachin: Okay and you see this trend continuing and only recovering in January or February?

Rajiv Sinha: No, we don't see these prices going down further, but I think it will be around this level, I mean there can be of course small changes here and there, and thereafter we do expect some improvements to come in.

Sachin: Okay and how are your raw material prices reacting to this?

Rajiv Sinha: See, our PVC process is based on calcium carbide as a raw material and which in turn has the carbon material and lime as its input cost and of course electricity. So unlike the changes in the petroleum products which affects the input costs of other PVC manufacturers our faith is determined more by what is happening to the carbon material prices, and yes the carbon material prices have also been traveling up in the past few months, so that is where it is, but I think at this point of time at least the coal prices have stabilized and some of the other carbon materials do show some amount of cost push.

Sachin: Okay, and what about the sugar one?

Ajay Shriram: Yes, in terms of sugar cane price, yes we will have some increase in U.P. I am sure, we are not sure how much, because there is no agreement or the government has not announced the price, there will be some increase. Overall the sugar production is expected to be about 23 million tons for the country as a whole. On the issue of Maharashtra what you are asking, if I am not mistaken Maharashtra projection was about 6 million tons. I am not sure how much they lose, I don't think any one has made an estimate there as to how much there would be as loss, but I don't think there is going to be very large that will effect the overall availability in the country too much. So the sugar prices will be more determined by really the export policy, the releases policy on a monthly basis and the international price; and the government is saying that they expect the exports to be opened up again in the next month, so I think that will give a benefit to the sugar industry.

Sachin: Okay, thanks a lot Sir.

Ajay Shriram: Thank you.

Moderator: Thank you very much Sir. Next is a follow up from Ms. Parul of Stratcap Securities.

Parul: Sorry, my question is already answered Sir, thank you.

Ajay Shriram: Okay.

Moderator: Thank you very much maam. Next is a follow up from Ms. Sanjugta Mazumdar of SK Sonthalia Securities.

Sanjugta Mazumdar: Hello, Sir I wanted to know what would be your realization in sugar for this year?

Ajay Shriram: Our projected realization in sugar, you know it is very difficult to give a projection on a commodity like this, in fact all I can say is last quarter our realization was Rs. 1,740, and we hope it is stable after that, because you know it depends on the exports, depends on availability, depends on so many parameters, and I am sure it will be difficult to give a projection on what is going to be the sugar realization.

Sanjugta Mazumdar: Okay Sir, thank you.

Moderator: Thank you very much maam. Next is Mr. Shyam Aggarwal from B&K Securities.

Shyam Aggarwal: Good afternoon Sir.

Ajay Shriram: Good afternoon.

Shyam Aggarwal: Sir my question is regarding the sugar division.

Ajay Shriram: Pardon me?

Shyam Aggarwal: My question is regarding the sugar division. Sir you said for the next year we plan to crush something around 350 million tons.

Ajay Shriram: 350 lakh quintals.

Shyam Aggarwal: Yes, where is this cane coming from, is it coming mostly from the cane development thing that we are undertaking or it is a diversion from other units?

Ajay Shriram: It's both, if you take two of our existing factories, which is Ajbapur and Rupapur, over here we have done a lot of cane development work by which the area under cane is going up and the growth and yield per acre is also going up marginally. So considering that we are getting this from our existing cane development efforts to a large extent. A lot of the area even in our existing factories is not growing cane, is growing other crops, so we are working with the farmers and trying to convince them why they should grow cane and that is going up, so that is an advantage.

Shyam Aggarwal: Basically you are increasing your capacity by 22,000 TCD over the I mean over 2005.

Ajay Shriram: 19,000 TCD.

Shyam Aggarwal: Cane yield is increasing in the area.

Ajay Shriram: 19,000 TCD, but if you take the other two new factories, in the new factories actually there was no sugar cane which was being purchased by the sugar factories in the past, and we have put in work over the last 2 years to convince farmers to grow cane and we have found that once the farmer had the confidence that a factory was actually coming up when they came and saw the construction going on and saw the progress, they also starting planting sugar cane. So we will get actually these two will be the new area all together where today is no sugar factory and our factory is also located in such a way it is like a grid where they are about 30 – 40 kilometers away from each other, so it gives a lot of flexibility within the four factories to draw cane from wherever is most convenient and most economical and most required at a given period of time.

Shyam Aggarwal: So basically we can conclude or say that the new factories will get cane from new extra cane grown in the areas?

Ajay Shriram: Correct.

Shyam Aggarwal: This is the trend over I mean all of U.P. and the 2 lakh TCD capacity that is coming in, that means about 30 million tons of cane will be increased in U.P. because of the increased capacity?

Ajay Shriram: Well, I will put it this way, I think in west U.P. where the density of sugar factories is more there I think some factories have come in based on this policy of the 15 km radius, and considering that position I think there is some encroaching of taking each others cane and not necessarily new cane. So I think that would be difficult to give a figure of how much new cane will come, but I think the expected sugar increase is suppose to be about 2 million tons in U.P. this year.

Shyam Aggarwal: Increase in?

Ajay Shriram: Sugar production.

Shyam Aggarwal: That would be 8 million tons together?

Ajay Shriram: 2 million tons; about 7.5-8, that is the total expected.

Shyam Aggarwal: Okay, thank you Sir.

Ajay Shriram: Thank you.

Moderator: Thank you very much Sir. Participants who wish to ask question may please press *1. Next is a follow up from Mr. Prashant Poddar of Prudential ICICI.

Prashant Poddar: Sir you mentioned about PVC prices being lower compared to September last year.

Rajiv Sinha: September this year.

Prashant Poddar: Compared to September this year they are 10% down now.

Rajiv Sinha: Yes.

Prashant Poddar: Okay, thank you very much.

Moderator: Are you through with your question Sir?

Prashant Poddar: Yes, thank you very much.

Moderator: Thank you very much Sir. Participants who wish to ask questions may please press *1.

Rajiv Sinha: Any more questions?

Moderator: Next in line we have Mr. Sanjay from Unitis.

Sanjay: Hello. I just wanted to ask about your plans to develop the 90 acres of land which you have in Delhi, can you just highlight on those things?

Ajay Shriram: See, based on the Supreme Court order for relocating our textile business, we are permitted to develop the land on a particular FAR basis. We can develop 37 acres of the land out of the 112 acres that we have, and this can build about 3.8 million square feet. About a year back we applied to the government and we are moving in the process of getting permissions from the government to develop this land based on the law of the land. The time that it takes is very long and I think there are almost 24-25 different agencies from where we have to get clearances to develop the land. So the process is on. At the same time many people have asked and people have shown interest in the land and enquired about the land. So you know we have actually moved on the basis of developing it, that is where we stand today. We keep meeting people of and on who keep saying that they are interested in joint development and take over and buying and all those sort of stuff, but we are moving ahead with development because there is nothing concrete on the table. I just want to clarify that 50% of the land belong to the company and 50% belongs to our partner Indorama from Indonesia.

Sanjay: Okay, so any time frame which you would like to give that approximation one year or so it would take to develop the whole project?

Ajay Shriram: I have got a feeling that the permissions may take say 12 – 15 months the way it goes and after that we get into the development.

Sanjay: Okay, thank you Sir.

Ajay Shriram: Okay, thank you.

Moderator: Thank you very much Sir. Participants who wish to ask questions may please press *1. At this moment there are no further questions. Now I would like to hand over the floor to Mr. Ajay Shriram, Chairman and Senior Managing Director of DCM Shriram Consolidated Limited, for closing comments.

Ajay Shriram: Well thank you everyone once again for joining us on this conference call on our results. We have tried to share with you the position as things stand. We look forward to the next conference call with you on our next results. But any queries or anything you have please be free to get in touch with our finance department or with Citigate and we would be happy to clarify anything which you might have on your mind. Thank you very much once again.

Moderator: 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.

- ENDS -

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