



DCM Shriram Consolidated Limited

Q3 and 9M Earnings Conference Call, FY2009

February 4, 2009

Moderator

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

Ishan Selarka

Thank you Priyanka. Good evening ladies and gentlemen. Welcome and thank you for joining us on DSCL's Q3 and 9M FY2009 conference call. Today, we have with us Mr. Ajay Shriram, Chairman and Senior Managing Director; Mr. Vikram Shriram, Vice Chairman and Managing Director; Mr. Rajiv Sinha, Deputy Managing Director; and Mr. J. K. Jain, Chief Financial Officer of the Company. Some of the statements being made on this call may be forward looking and a note to that effect is included in the release sent out to you earlier. We will begin this conference call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram, after which we will have a question and answer session. I would now like to invite Mr. Ajay Shriram to give us a brief overview of the Company's operations in the quarter under review.

Ajay S. Shriram

Thank you Ishan. Good evening ladies and gentlemen and a very warm welcome to all of you to DSCL's Q3 FY 2009 Conference Call. You all know these are testing times for corporate India, given the tough global business and financial scenario. Our diversified businesses along with swing capabilities have helped us in faring satisfactorily during these tough times. As a further step to strengthen the swing capabilities in our Chloro-Vinyl businesses, the Company started its sale of power to third party from captive power facilities at Kota, thereby adding one more revenue stream. We are working on getting permission for power sale from our Chloro-Vinyl facility at Bharuch as well.

Let me begin by sharing the progress on the Agri businesses, which includes fertilizers, Agri input trading, sugar, and our Hariyali Kisaan Bazaar chain of rural business hubs.

Our Fertilizer manufacturing facility is the lowest cost manufacturing facility in the pre-92 Naphtha based group. This quarter, the Company used Naphtha as the feedstock. Since our plant is dual feed, it is our endeavor to get LNG supplies on a long-term basis.

Our Agri input trading business which aims at providing farmers with a complete basket of Agri inputs has made good progress. We continue to focus on high value-added, high margin and limited government subsidy dependent products in this business. The sugar business recorded better realizations after hitting record lows last year. This led to business turning into profits though the earnings are still suboptimal. The challenges in this business are essentially originating from an un-remunerative sugar prices, which restricts our ability to pay a remunerative sugarcane price to farmers. This in turn limits adequate cane availability to mills as farmers move away to other crops which has a higher MSD from sugar prices. However lower production in the sugar season 08-09 are expected to partially offset this concern. The expansion of our Co-gen power capacity from 70.5 MW to 94.5 MW leading to an exportable surplus of about 51.5 MW is now functional and has complimented our earning in the quarter under review.

Hariyali Kisaan Bazaar which is currently present in 8 states in India is demonstrating immense potential in the rural community. We gained further momentum in this business and are on track of expanding the number of outlets to reach approximately 280 to 300 by the end of the FY09. The total number of outlets stands at 245 as on December 31, 2008, with 35 outlets being added during the quarter. The enhanced offerings from these outlets both as retail outlets and on mine bank of Agri products are expected to reduce the gestation period for these outlets and will strengthen the overall business model.

Let us now move onto the Chloro-Vinyl side. This business is witnessing margin pressures particularly in the PVC business. Our focus continues to be on improving our cost competitiveness through economies of scale and various cost side initiatives. The 48 MW coal-based power plant at our Bharuch facility thus replacing the furnace oil-based power plant,

commissioned in September 2008 is enabling us to derive cost savings. We have started the sale of power from Kota during the quarter and plan to build similar capabilities from Bharuch also. Simultaneously, we are developing capabilities to manufacture PVC directly from imported VCM. We expect that this will substantially strengthen our business model to handle the volatility in a better manner.

In Fenesta building system, our strategy to focus on the retail segment is working well, and has demonstrated good demand for the product, helping us to mitigate the slow sale in the institutional segment. The overall order booking during the quarter was of 34,217 windows, and the outstanding order book as on 31st December 2008 stood at 1.5 lakh windows.

We have completed all our capex initiatives in this quarter. The Hariyali expansion is as per plan and will be met through internal accruals. As the project starts generating return, it will be our endeavor to further strengthen our balance sheet going forward.

To close, our result reflects strong operations in market conditions that are challenging for a few of our businesses. However, with the completion of projects in hand and better prices in sugar, we are seeing greater signs of stability across all our businesses and are confident of recording consistent performance through the various business cycles. Now, I will request Vikram to take you through the financial numbers for this quarter. Thank you.

Vikram Shriram

Thank you and good evening ladies and gentlemen. I would like to once again thank all of you for joining us today on this conference call. I will now summarize the numbers for the quarter ended 31st December 2008 compared to Q3 FY2008. The Company recorded a rise of 37% in total revenues from Rs. 671 Crore in the corresponding quarter last year to Rs. 919 Crore this year.

Sugar business led the overall growth registering an 85% increase in revenues to Rs. 222 Crore. The Agri input trading and Hariyali Kisaan Bazaar businesses also grew by 88% to Rs. 104 Crore and 95% to Rs. 150 Crore respectively. The PBDIT for the quarter grew by around 49% from Rs. 67 Crore to approximately Rs. 100 Crore. However, the interest cost increased to Rs. 46.8 Crore in this quarter compared to Rs. 13.8 Crore in the corresponding quarter last year due to higher interest rates and also

higher debt consequent to expansion of the Chlor-Alkali facility including the coal-based power plants, sugar co-gen, and Hariyali Kisaan Bazaar.

Let me now take you through our business-wise performance for the quarter. To begin with, our sugar business registered higher revenues at Rs. 222 Crore, an increase of 85% over the corresponding quarter last year. The PBIT was Rs. 38 Crore compared to Rs. 3 Crore. The improved performance is aided by higher sugar realization and enhanced power export capacity by 24 MW, which was commissioned in the current sugar season. The product mix improvement in the Agri input trading business has led to an overall improvement in terms of volumes and margins from this business. Our revenues and PBIT was substantially higher by 88% and 110% at Rs. 103.8 Crore and Rs. 77.8 Crore for the quarter respectively.

Our fertilizer business registered nominal growth in revenues by 1.7% on account of higher feedstock prices despite lower volumes. Volumes were lower on account of lower production in the quarter under review. The production will be lower in the next quarter also; as the Company had already produced higher quantities of urea in the first two quarter to be within the overall permitted capacity of producing 3,79,000 metric tonnes for the year. Revenues from Hariyali Kisaan Bazaar increased by 95% to Rs. 150.2 Crore compared to the corresponding quarter last year. Earnings from this business are currently negative as per plan. As mentioned earlier, the Company added 35 outlets during the quarter and the total outlets at the end of the quarter stands at 245 outlets across 8 states.

Moving to the Chloro-Vinyl segment, our chemical business witnessed cost efficiencies due to replacement of 24-MW furnace oil-based power plant with 48 MW of coal-based power plant commissioned at Bharuch in second quarter of FY2009, and enhanced capacity of 360 TPD from 200 TPD. The revenues and PBIT stood at Rs. 108 Crore and Rs. 25 Crore compared to Rs. 90 Crore and 22 Crore in the same period last year.

In our plastic business, revenues and PBIT stood at Rs. 77.6 Crore and Rs. 9.2 cores. PVC registered lower realizations along with lower volumes. The prices in international PVC markets witnessed a low of USD 550 a tonnes in November 2008 compared to a peak of USD 1,363 a tonne in July '08. The current prices have improved marginally to USD 740 per tonne demonstrating some level of recovery. The realizations of calcium carbide have remained relatively firm.

The Company started substantial sale of power to the grid during the quarter under review. The inherent swing capability to optimize the Chloro-Vinyl product mix at Kota manufacturing complex between PVC, Chlor-Alkali, calcium carbide and power has enabled the Company to maintain stability of returns from these businesses. Given the integrated nature of our businesses, we continue to deliver steady performance even in this challenging external environment.

On an overall basis, we are satisfied by our operating performance. We expect that the interest costs will go down as interest rates soften and internal cash generation will also help in reducing debt level. This is because other than Hariyali Kisaan Bazaar, all the committed expansion plans of the Company have been completed. With this, I would like to conclude. Thank you once again for joining us on this conference call. We will be very happy to answer any questions that you may have. Thank you.

Moderator

Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question please press *1 now. First in line, we have Mr. Rakesh Raveendran from CRISIL Research.

Rakesh Raveendran

It is a dicey time for the Chlor-Alkali business; especially if you see the chlorine side of the game. I just wanted to get a feel of the client percentage, the sectoral off take that you are witnessing on your caustic soda as well as on chlorine

Ajay Shriram

If we see the total Chlor-Alkali market, we are the third largest in the country now after expansion. The caustic soda part of it goes into the aluminium segment, the paper segment, the detergent and toiletry segment and also into the chemical segment.

Now to talk about the chlorine side of it; a large part of it goes into PVC plus into making couple of other chemicals, bleaching powder, and many municipalities use it for the water treatment plant. The international price of caustic soda which was also low has gone up a little bit in the last couple of months. That has helped the domestic prices also. But you are

right; chlorine today is in a situation where the prices are low. We are a 2-product industry. Chlorine is something you cannot stock. One can keep stock for two to three days and that is about it. So, if the product gets jammed up, then you have to stop production. There is no other alternative. The good thing here is that the off take is happening and the industry is running satisfactorily. Yes there is pressure; so everyone is not running at full capacity, but the industry is running well, and we are finding that the caustic soda prices are going up, which is an overall benefit to the industry in general.

Rakesh Raveendran Could you give in percentage terms the off take, for example how do you see it for aluminium?

Ajay Shriram To be honest with you, I am sorry, we don't have the figures here in terms of percentage off take of the industry.

Moderator Thank you very much Sir. Participants who wish to ask questions, please press *1 now. Next in line, we have Mr. Amit from ICICI Bank. Over to you Sir.

Amit If I look at the EBITDA numbers for the last quarter; other than sugar, maximum contribution comes from your Chlor-Alkali business, and what I see is sales realization from this division on Rupees per metric tonnes has gone down by 20%. Now, sugar has worked really well for you in this quarter, but there are concerns in terms of sugar procurement in UP in this season, and let us say falling realizations in the Chlor-Alkali division. How do you really foresee the next two quarters.

Ajay Shriram I think in terms of sugar, yes, the Cane has been a problem in this season on an all-India basis. As mentioned in the investor release, because of lower sugar production, the price of sugar is likely to be a little higher, so that is the compensation as far as the Company is concerned. As far as the Chloro-Vinyl business is concerned, we are actually witnessing some marginal improvement in the prices. The domestic scenario looks more positive where India still grows at 6% to 7% GDP. Also there is some pull happening because of which the prices have improved in the caustic soda as well as the PVC side of the business over the last two months. So, the prices are not going down fortunately. The prices are stable or inching up, so we are positive on the situation of the Chloro-Vinyl business over the next couple of months. What has also happened is that our expansion

which is planned in Bharuch, our eighth electrolyser was commissioned just 3 days back. So that will give us an additional production capacity, which means per unit cost of production will come down. Similarly our coal-based power plant at Bharuch which has a capacity of generating 48 MW actually generated almost 50 MW which is the power requirement running at today's capacity. So I think these economies of scale will also help us. I will add that the coal prices internationally, as you are aware, have also softened, and we are using imported coal basically from Indonesia for our Chlor-Alkali in Gujarat in Bharuch, so that is also helping us in lowering of cost of production.

Amit What is the current debt position of the Company in terms of outstanding debt as on 31st of December?

J.K. Jain Both long-term and short-term debt put together is about Rs. 1800 Crore.

Amit What would be the portion of short-term loans?

J.K. Jain Short term loans would be about 40% to 45%; while the balance is long-term.

Amit Are you also looking at replacing higher cost debts with the lower cost debt?

J.K. Jain Yes, we are. Most of the short-term debt is tied up for 15 days to 1 month period only. So it is continuously rolled over based on the market rate.

Amit Do you think that the Company carries any refinance risk to that extent?

J.K. Jain We have the cash credit facility which almost covers the entire short-term debt requirement. So the refinance risk is only in the form of higher interest cost and not liquidity per se.

Moderator Thank you very much Sir. Next in line, we have Mr. Avinash Gupta from Bonanza Portfolio Limited. Over to you Sir.

Avinash Gupta You mentioned that you are selling power to third parties. Is that only from our Co-gen facilities and plant at Bharuch?

Ajay Shriram

We started selling power from one of our sugar plants approximately 4 years ago to the tune of about 20 to 22 MW. We recently commissioned another 13 MW each in two more factories in Hariawan and Loni, where totally we can export another 25 MW. This is only sold to the UP state government and not to third parties as per our agreement with the state government.

Regarding selling power, our Kota complex in Rajasthan is giving us real swing capability where we generate about 133 MW of power. Now with the international price of PVC falling from over from USD 1350 to USD 550, the domestic price also fell, where we found it was not remunerative to actually manufacture PVC. However, we have been able to work with the state government, and simultaneously get into an agreement with them for open access, by which we are able to sell power in the state of Rajasthan. We are selling it to the state directly. We are selling it to the exchange and to the traders also. We are also a member of the Energy Exchange by which we can access and trade power whenever we have surplus power and when we find that the prices are good. So that is where the major swing capability has already happened and for the last 2 months we have been selling power from our Kota complex, and the third is in Bharuch in Gujarat. We have applied to the state government to give us permission to sell power because if you recollect we had recently commissioned a coal-based plant which is about 50 MW in Bharuch. We already have about 24 MW furnace oil-based DG set plant, so frankly if it makes business sense for us to generate power on DG sets and sell it to the grid or to a third party and we get a margin, it is a good business. We are looking to sell power from our Bharuch facility also; but that may take a little time. We are hoping that we get permission from the state government by end April or mid May this year, and then we can look to start selling power from there also.

Avinash Gupta

Whenever you sell power to the third party; would the state government levy some charges in view of the subsidies which the state utilities incur? Is there any such charge for this kind when you are selling it to the third party or to the exchange?

Rajiv Sinha

As we supply to the grid, we are able to get a net price at the outlet of our factory limits. If there are any charges or any duties to be paid, they are generally paid by the buyer. So, we go by a net price when we are selling to the Rajasthan Vidyut Prasaran Nigam which is the state utility

Company. As Mr. Shriram mentioned we also sell it to the exchange and to the third parties. So in every case we are looking at a price which is in our limits. So, if any kind of duties and cess has to be levied these are generally paid by the buyers, but as far as I know for all sale within the state, there are no extra charge levied. There are certain charges prescribed under the open access regime, and that is what is being charged by the different intervening grids.

Ajay Shriram

I will just add, as far as we are concerned, we are not involved with any subsidies. The state government might want to give it to someone else. They are buying it at whatever rates they can get to meet their commitments, which is at full price or half price or subsidized price, that is a state issue, we are not involved with that.

Avinash Gupta

You mentioned that you are trading on the exchange. Are you actively trading? Is it that we are selling only whatever we have, other is that we are buying and then selling to make money?

Rajiv Sinha

No, we are basically trading only in the surplus power available with us.

Ajay Shriram

I will just add to this for everyone's benefit that when we talk about swing capability, for instance if the rates at night at which we can sell on the exchange comes down, then we sell less at night and increase the capacity of our own plants that use power, and in daytime when the rates are better on the exchange, we reduce our own production levels and sell more to the grid. We actually calculate what the net back is for each unit of power and that becomes a deciding factor of whether we produce or sell.

Avinash Gupta

What is the kind of rate that we are able to get from the grid and from third parties?

Rajiv Sinha

I think the rates have been varying between Rs. 5 to Rs. 6.5 per unit. It is something that we have to constantly monitor and optimize, but these are the kind of rates we have been getting.

Avinash Gupta

What is the kind of rates we get from the state electricity board? Would that be within the same range?

Rajiv Sinha

Yes.

Moderator Thank you very much Sir. Next in line, we have Mr. Rishab Bothra from B&K Securities Private Limited. Over to you Sir.

Rishab Bothra What kind of sugar inventory do we have at the end of quarter? What would be its total value?

J.K. Jain We had old sugar of about 4.5 lakh bags and new sugar of about 7.5 to 8 lakh bags, so total about 13 lakh bags. The new sugar value will be worked out towards the year end for the entire year. However, the old sugar was valued at about Rs. 1,400 per tonne.

Rishab Bothra Last year we mentioned that we are not going to trade a lot in Agri inputs due to loss on that front. However if I see this year's revenue from that area, it has again increased.

Ajay Shriram I think the issue is that the DAP and MOP, which we used to import in large quantities; if you are aware last year the prices of these products in the international market hit the roof. DAP went to levels of about USD 1200 or USD 1300 which is unprecedented, so we actually have not imported any DAP or MOP to supplement our Agri inputs division, but what we have focused on is providing a wider range and larger quantities of the other traded inputs required by farmers, which include pesticide, seeds, fertilizers, implements, I mean the whole range of other things by which it will add value to the farmer and also as I mentioned earlier where we do not have to go to the government to get the balance cost. For DAP, MOP and urea we had to go to the government because we had to sell the produce to the farmer at lower than the cost of production, so we stopped DAP, MOP and we have put our focus on the other inputs, which have moved well.

Rishab Bothra What amount is due from the government in regards to subsidy and what kind of funds do we have i.e. fertilizer bond?

Ajay Shriram As of today, we get subsidy only on urea because we have not imported DAP and MOP. We also get some amount on SSP i.e. Single Super Phosphate. So, on the urea front, for the last two or three months, we have got the money directly and also bonds, and the bonds are up to 2022-23, and the interest ranges from 6.65% to about 7%. The total amount we have in that is Rs. 106 Crore. Of this, we just got Rs. 50 Crore about two days ago. In addition, we have subsidies of about Rs. 33 Crore in the SSP front.

So, that is the total subsidy due. The situation is now with the interest rates falling, there are opportunities for us to sell the bonds on the urea front. We are going to examine that and take a decision at the appropriate time.

Rishab Bothra What kind of discounting is currently available or is it trading at premium?

J.K. Jain The bonds are currently trading at a yield of about 7.8%. So depending upon what is the coupon; some of them are at premium, some of them are at discount.

Rishab Bothra If combined together and if we had to dispose, what would be the discount at the current level?

J.K. Jain I think we are at about couple of percent discount on an average basis because the last one was issued at a very low premium.

Rishab Bothra What kind of capex are we planning for Hariyali going ahead?

J.K. Jain Centers is where we buy land and make Outlet / business center on that. Those are the constructions which we have completed, but in the next year, we are thinking to move more towards the rental model, where we will not incur much capex, so our expectation on capex is fairly low in the range of may be Rs. 15 to Rs. 20 Crore. We want to keep it as low as possible because our policy now in next couple of years is that we want to be very tight on our capex.

Rishab Bothra Are we seeing some sort of slowdown in terms of revenue of different products in the stores and centers?

J.K. Jain: Well, not really, the good thing is that it has been recognized everywhere that rural India and the Agricultural sector has done fairly well because of which the income levels in rural India are fairly satisfactory which is showing across the board in results of many companies or FMCG and many other. The expectation in this year is that the monsoon should be good. The government has announced fairly good minimum support prices of various products. That will also help the farmer get an inflow, and an income which will help the business.

Rishab Bothra Which is the main area in Hariyali for growth, whether it is apparels or fertilizers or others?

J.K. Jain

We have different verticals. Our Agri inputs is a major segment where we provide Agri inputs and services, there are agronomists in every center and store. Similarly, we have FMCG products. We have consumer durables, food and groceries as a large segment, so it is growing everywhere. Products at our state-to-state or area-to-area things vary; but we are seeing good movement in all our offerings.

Rishab Bothra

What is your strategy to compete Hariyali Kisaan Bazaar with old-age 'mandi' system for example, you don't provide credit to the farmers, because farmers always go to the commission agents or local 'Artias' who provide them credit?

Ajay Shriram

I think it is a little strong statement that they always go for that. We are finding that they are of large number and the footfalls are increasing. They are coming to our centers and stores also. I think also what is important is providing value for money, and there is a sense of trust which comes about that. Say, if you are paying X and you do not get what you deserve, and get products which are not of satisfactory quality, then why would you buy it from there. Secondly, we are also working with banks to provide credit to the farmer, especially in our sugar area as we have 250,000 farmers and we are trying to build up a model with these banks that how can they provide the loans to the farmers and we also buy sugarcane. So it becomes a three way agreement which is win-win for everybody.

Rishab Bothra

Because of the credit crunch the farmers are also not getting instant money from the commission agent sources; so will that also be affecting your HKB business?

Ajay Shriram

We have not experienced that, and this issue has not come up in our discussion.

Vikram Shriram

In fact conversely one can say in the last couple of months, the level of sales has improved very dramatically based on higher MSP's, good yields, good monsoons, etc. So, the liquidity available in the rural community and the liquidity being spent in Hariyali are reflecting in very healthy increases in sales even from a point of view of store sales and new sources. So, there is substantial growth in sales taking place.

Rishab Bothra

You said that going forward you will be mainly concentrating on the rental format. Is there any ballpark number that you could give for the capital to be employed by you in FY '10 in HKB?

J.K. Jain

The present capital employed is about Rs. 450 Crore, including working capital, and since we are not looking for major increases, I think whatever increase will come in, will come in the form of higher inventory required to support higher sales. So we don't see any substantial increase in capital employed.

Rishab Bothra

When do you expect to generate profits from HKB as this business is still in the investment phase?

Ajay Shriram

A good thing happening is that all these verticals are growing. Simultaneously, we have got some other verticals where we are utilizing the asset base of Hariyali like the trading of milk collection which is expected to start. Seeds also form a major part of this activity. Apart from this, financial services is another segment which is moving well in the region and growing rapidly. So considering all this we expect in 2 to 3 years' time we should be well into that.

Rishab Bothra

Looking at the current scenario in the next season, due to lower cane production, there is expected to be shortage of bagasse. So now with extended capacities in your co-gen business do you think that you would be able to utilize your full capacities?

Ajay Shriram

Well, I think the situation is that expanded capacity can be utilized only during the season, because these are actually running on free steam, which is that when you generate steam at a high pressure, and then reduce it to feed to the sugar factory, so this will run only in the season. But you are right, if the sugar crushing is lower, automatically bagasse availability is lower, and that will affect the amount of power which we can generate.

Rishab Bothra

What kind of recoveries are you getting in your mills for sugar.

J.K. Jain

Well, this year, recovery has been a problem across the board all over UP, and we have also found that our recoveries are lower by almost 0.6% to 0.7% compared to the last year. So we are running in the range of about 9% to 9.1%. Out of our four mills, three are still running and the recoveries are good at the moment.

Rishab Bothra

Till what time would the three mills be operational?

Ajay Shriram

Well, I think these three mills should continue for at least another couple of weeks, but we are working on this. I think there is a lot of effort going on by the cane people across the board in all factories on how we can get

some more sugarcane coming to the sugar factory, rather than going for Gur and Khansari, which is always on.

Rishab Bothra

So we may close down probably by Feb-end?

Ajay Shriram

We do expect one of our factories to continue beyond that also because there the cane area is good and the concession or the density of Gur and Khansari is less. We expect that mill to continue a little longer.

Rishab Bothra

How many days do you expect your mills to be running in the current season?

J.K. Jain

About 90 days.

Rishab Bothra

90 days would be at what capacity utilization in terms of percentage?

J.K. Jain

If we take only the running days, then our capacity utilization will be in the range of 70% to 75%.

Rishab Bothra

Can you give us any idea that how much percentage of the total sugarcane would have been diverted towards Gur and Khansari?

J.K. Jain

To be honest I am sorry we are not able to give that percentage right away.

Rishab Bothra

Regarding this Co-generation facilities we have heard some news that UP mills are re-negotiating prices of Co-generation power with UP electricity board. So what is the progress on that front and what do you expect?

J.K. Jain

This dialogue is on. However, it is difficult to say how long it will take but we have initiated the dialogue.

Rishab Bothra

Do you expect this to happen in the current season or will it happen in the next season?

J.K. Jain

It will be in the next season. I think it is going to finish in the next couple of weeks, or next month for all the factories. So if there is anything coming out of this, it will only be for the next season.

Moderator

Thank you very much Sir. Next in line, we have Mr. Avinash Agarwal from Sundaram BNP Paribas. Over to you Sir.

Avinash Agarwal

You mentioned that you were selling power from your Kota factory; so does it come under the 'others' segment?

Rajiv Sinha

For this quarter we have included it under Chloro-Vinyl and that is chemicals and plastics because fundamentally as was explained by Mr. Shriram that it is a swing capability that either we will make more PVC or caustic soda or carbide or we sell power or a mixture of the same.

So, really it is completely interchangeable, I mean, as we said even in the night when the rates in the exchange may fall, we may produce more carbide and PVC, whereas in the day we will cut it down and sell power because the rates are better per unit of the energy that we produce. It is the first time there has been any substantive sale from Kota and therefore we have allocated it amongst our chemicals and plastics results.

Avinash Agarwal

So we don't have a distillery and we sell the molasses.

Ajay Shriram

That is right; we are selling molasses to rectified spirit manufacturers and to portable alcohol manufacturers.

Avinash Agarwal

What would be the average realization of molasses?

J.K. Jain

I think it is about Rs. 350 to Rs. 375 per quintal.

Avinash Agarwal

In the 'others' segment we have shown a loss, previous quarter we had a profit of Rs. 1 Crore to Rs. 1.5 Crore; was this due to Fenesta?

J.K. Jain

Yes. The 'others' segment actually comprises of three businesses viz. Fenesta, Textiles, and Polytech. So, the swing is largely because of Fenesta.

Avinash Agarwal

Was that due to some inventory or something.

Vikram Shriram

While the order book position is very healthy, the liquidity and the payment capacity of the builders from whom orders are pending have been under close scrutiny from our side, so we have during the quarter gone slow in terms of fulfillment of orders, and have been very careful to make sure that whatever orders we are fulfilling are secure in terms of payment capability of the builder. This has resulted in cut back in sales and production in spite of having orders in hand, and in spite of builders wanting delivery because we don't want to be in a situation of making the supplies and then having problems on payment.

So, Fenesta while it has turned EBITDA positive in the previous quarter has unfortunately taken a negative swing this quarter because we have

been cautious in terms of supplying primarily to builders, and the economic slowdown which has affected on an overall basis.

Avinash Agarwal

Has our focus in the retail segment that helped us in any way or do you see problem there as well?

Vikram Shriram

This is a relatively new initiative and during the quarter we have had encouraging results. We have started this about 6 -9 months ago as a test case, and we have actually ramped it up over the last 3-6 months, and the results from the retail segment are encouraging, and that is actually cushioning and providing an alternative, where the sensitivity to the overall scenario and sensitivity to the stress in the real estate sector does not spill over to the retail segment.

Avinash Agarwal

Would the retail segment be primarily residential or commercial?

Vikram Shriram

It is a combination of residential and commercial institutional where for example schools, hospitals, hotels, smaller property developments or smaller commercial developments and also substantially residential also. The residential includes new builds and it includes replacement. For example, we have a turnkey replacement offering where someone wants to upgrade his home, we can do a turnkey job in 48 hours in moving his old window and installing a tailor made window, including doing the finishing, etc, so that quality of life for the concerned apartment owner goes up.

Avinash Agarwal

Out of your total order book of around 1 to 1.5 lakh windows, what percentage would be institutional and what percentage would be retail.

Rajiv Sinha

The contribution from retail is very low currently since it has small gestation period. Institutional currently contributes to almost 90% of order book. We typically would execute a retail order within 4 weeks to 6 weeks depending on the nature of the windows, so bulk of the order book is institutional.

Avinash Agarwal

Out of your debt, how much would you have to repay back over the next one year?

J.K. Jain

The long-term loan repayment is actually Rs. 110 to Rs. 120 Crore a year.

Avinash Agarwal

Do you plan to repay back more than this.

J.K. Jain

You can't repay more than this because that will involve renegotiating.

Avinash Agarwal That will also reduce the debt in general.

J.K. Jain Yes. But I think whatever surplus is available; we will try and reduce the short-term debt.

Avinash Agarwal What would be average cost of our debt right now?

J.K. Jain Short-term would be at about 11% and long-term at about an average of 9%. We have a fair amount of foreign currency loan where the fully hedged cost is low.

Moderator Thank you very much Sir. Next in line, we have Mr. Sachin Kasera from Lucky Securities. Over to you Sir.

Sachin Kasera I just wanted to get an idea regarding the diversion of sugarcane towards Gur and Khansari in this season?

Ajay Shriram It is difficult to give a figure, it is difficult to justify and give a true estimate. Also what happens is that each of our factories and each area have different density of Gur and Khansari. But yes, there has been two issues, one is that the overall cane availability is much lower, which has made the sugarcane availability more difficult, and secondly Gur and Khansari prices. There is no government control of any types and the prices of Gur and Khansari have been fairly high, so that is where the sugar industries had a challenge in this year.

Sachin Kasera Would it be fair to say that their share has increased this year? I am talking of UP as a whole if not our unit specific. Could you give any idea if it has it gone up compared to the last sugar season?

Ajay Shriram Well, I put it this way, I think compared to the total sugarcane available, possibly what has gone to Gur and Khansari is higher as a percentage as compared to last year because the total production is less. All industries are also pushing the farmers to maintain and keep some sugarcane for the seeds requirement for the next year. So, that has also impacted the sugarcane availability for crushing by sugar factories.

Sachin Kasera With better prices and healthier balance sheet this year; do you think next year the sugar industry will be in a better position to pay farmers and therefore once again the share of sugar industry vis-à-vis the Gur/Khansari could increase in sugar sale in 09-10?

Ajay Shriram

The prices of sugarcane for Gur and Khansari is not controlled or monitored by the government at all. There have been instances when the Gur/Khansari manufactures paid Rs. 110 or Rs. 105 and sugar manufacturers paid only about Rs. 85 to Rs. 90.

So, farmers are compelled to go there because they want to vacate their field at a particular time for planting wheat or planting some other crops, whereas sugar industry is tied down totally by having SMP announced by the central governments and then many states deciding their own price as SAP, and that is sometimes not linked or not in sync with what is the sugar price. So the capability of the sugar industry to pay gets affected, so that is why this year they expect sugar price to be better, by which the industry should be in a better position to pay better next year.

Sachin Kasera

What is the price of Gur and Khansari that people have paid in the current season vis-à-vis Rs. 140 paid by the industry.

Ajay Shriram

Well, we have heard that they have gone up to Rs. 160 to Rs. 165.

Sachin Kasera

I think the volumes are down around 12% in the Chemicals segment despite the increase in the capacity by almost 200 tonnes, could you throw some light on that?

Ajay Shriram

Well, again, it is a situation where in this quarter, because of the swing capability at Kota; we consciously reduced the production of chemicals and sold the power instead. So, because of that, our chemicals turnover is lower.

Sachin Kasera

What is the amount of power that we have sold both in Kota as well as in Bharuch outside in terms of units?

Ajay Shriram

In Bharuch, we have not yet started selling. We hope to start that in the end of April and beginning May, but at Kota we have sold the highest in the month of December i.e. close to about 3 crore units.

Sachin Kasera

And what would be for the quarter ended December?

Ajay Shriram

I think we sold about 5.5 crore units from Kota alone during the quarter ending December.

Sachin Kasera

You mentioned that from Bharuch we will be selling only in April, so basically the major drop in production chemicals is because of surplus

power being sold from Kota whereas Bharuch operated at the good capacity?

Ajay Shriram

Bharuch operated satisfactorily, in fact because of the new power plant and the expansion, which was commissioned last year we were able to increase our production levels at Bharuch.

Sachin Kasera

Sir, you mentioned about using the DG set at Bharuch and selling power. So is it viable at the current prices. What type of profit could we make?

Ajay Shriram

It is difficult to estimate a profit, it will depend on the price at that particular period of time.

Moderator

Thank you very much Sir. Next in line is Mr. Satish Desai from B&K Securities Private Limited. Over to you Sir.

Satish Desai

Can you give us any idea on what would be the sugarcane production in India in the current season?

Ajay Shriram

I am sorry, we don't have that figure here. This is a very detailed data, which we don't have here right now. You can send an email to us and we will be happy to give whatever information you want.

Satish Desai

As you said that in the current season, majority of the sugarcane will be kept for the next year seeds.

Ajay Shriram

Not majority; but some of it.

Satish Desai

As in the current season due to the climate changes and uneven rain, many sugarcane areas caught up with a lot of diseases. So don't you think that in the next season the current year's sugarcane will be used as seed? Do you feel that the quality of the sale would be deteriorated in the next season?

Ajay Shriram

At least in our area, we have had no problem of any diseases. The issue is the yield per tonne per acre is lower and the weight of each stick of cane also is lower because of climatic and other factors. So the issue is having the cane stick available as seed. It is good cane, it does not have any disease or any problem of that kind. So we are working very actively with the farmers to ensure that the seeds are good as if you don't have seeds, you have a problem next year anyway. Unless and until we have the seeds available, we are going to be in trouble next year. That is actually the tradeoff between crushing this year for higher current profits versus retaining the seeds so that next year you can have a higher crush. You

have to find a balance somewhere in terms of retaining seeds so that next year you can look forward to a higher crush.

Satish Desai

In current season, the recovery has gone down as the sucrose level is low. So is it going to affect the recovery levels in the next year aswell?

Ajay Shriram

This is an Agricultural produce where it will depend on the fertilization, weather pattern, rainfall and sunshine. There is no correlation as it is not necessary that we will have a lower yield next year as the yields in this year were low.

Satish Desai

There is a difference in sugar prices in South-based and North-based mills. So what is the reason for that? Is it sugar quality or something?

Ajay Shriram

I think it is a supply-demand situation and very often the imports in North are low than South India. You can get imported sugar in South, whereas in North India the freight is an added element to bring sugar into the North Indian market. Market-to-market, there is a slight variation, and if it is too much of variation, sugar will flow from one market to the other. So, it just stays at that level, where it is suitable for one particular market. We don't estimate sugar quality has anything to do with it.

Satish Desai

So basically, the mills of both the regions produce same kind of sugar.

Ajay Shriram

Generally, mills produce plantation wise sugar, so in fact someone is exporting them, they might make a different quality sugar for the requirement, but the Indian market is generally plantation wise sugar.

Satish Desai

In the domestic market we see that they are two varieties, small sugar and medium sugar.

Ajay Shriram

That is not so big. Small, medium, large is part of in the process. When you are crystallizing the sugar, they are in all sizes, so after one grades it you get different percentages of each. It depends on each individual factory strategy. If you want to get larger grain, you have to keep it in the crystallizer longer, and the steam consumption goes up, so that is trade off each Company has to make.

Satish Desai

How much production do you expect, in quantum terms, for sugar and from Co-generation facility because now the season is almost over, so the picture would have been clear now? Can you give us any idea that how

much sugar production you will be doing and how much power production you will see in the current season.

Ajay Shriram

Our sugar production this year should be in the range of about 15 lakh bags. Co-gen will be about 5.8 crore units for sale.

Moderator

Thank you very much Sir. At this moment, there are no further questions from participants. I would now like to handover the floor to Mr. Ajay Shriram for final remarks. Over to you Sir.

Ajay Shriram

Thank you once again ladies and gentlemen for joining us for this conference call. We appreciate your interest, appreciate your questions. As everyone knows, it is a difficult business environment. The markets are tough; the world-wide economy is undergoing a serious meltdown, which is affecting everyone. However, I think in India the things are better. We do feel that the Indian market is somewhat buffered compared to a lot of other markets because of our own domestic market, which is large. As a percentage of our GDP, our exports are much lower than many other countries, which has helped us a lot. We expect interest rates to come down over the next some months. That will again help us in reducing our interest costs and cost of fund, so that is a positive direction. As we mentioned, our swing capability is something which has given us a tremendous advantage in being able to provide us different value added products at times of difficult environment. So, overall, we feel that we are fairly stable. The combination of businesses gives us an edge over a standalone business, and we are confident about the future. Thank you once again for joining us today. Good bye.

Moderator

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