

## DCM Shriram Consolidated Limited

### Analysts / Investors Conference Call

May 12, 2006

**Moderator:** Good evening Ladies and Gentlemen. I am Gaurav, the moderator for this conference. Welcome to the DCM Shriram Consolidated Limited conference call. I would now like to hand over the floor to Mr. Abhinandan Singh of Citigate. Thank you and over to you Sir.

**Abhinandan Singh:** Good afternoon and thank you for joining us today on DSCL's Q4 and FY2006 conference call. Joining us on the call today are Mr. Ajay Shriram, Chairman and Senior Managing Director, Mr. Vikram Shriram, Vice Chairman and Managing Director, Mr. Rajiv Sinha, Deputy Managing Director; and Mr. J. K. Jain, Chief Financial Officer of the Company.

We propose to begin the call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram after which we will have a discussion forum. I would now like to invite Mr. Ajay Shriram to share with us his perspectives on the Company's performance for the quarter and the year under review. Over to Mr. Shriram.

**Ajay Shriram:** Thank you. Good afternoon Ladies and Gentlemen. I would like to welcome all of you once again to DSCL's fourth quarter earning and financial year 2005-2006 conference call. I hope that by now all of you would have had the opportunity to go through our results for the quarter and year ending March 31, 2006.

Our overall performance has been satisfying and we have been able to implement the multiple growth initiatives. We were able to deliver a robust operating performance across all our businesses. Despite difficult price environment in the plastics and chemicals business and rise in input costs we demonstrated high growth potential. I believe that our integrated nature of businesses and extensive growth across the entire agri -rural value chain and in our chloro-vinyl businesses will help us in maximizing value creation.

I feel great pleasure in informing you that we have now completed and commissioned all capacity expansions at our Kota complex which as you maybe aware is also our largest. This includes the successful implementation of capacity expansion for chlor-alkali, plastics, carbide, and power at Kota. The completion further enhances our total chlor-alkali capacity to 510 tons per day including our capacity at Shriram alkali and chemicals, Bharuch. Our entire chlor-alkali capacity is now based on the modern and environment friendly efficient cell membrane technology.

In the plastics business, we manufacture PVC through the carbide route, thus avoiding petro-chem's prices impact on costs. No other player in India manufactures PVC through the carbide route and hence we enjoy a cost structure de-linked from crude ethylene price cycle. The completion of our expansion project to 175 tons per day for PVC resin, and 340 tons per day of carbide during the third quarter of financial year 2006 has stabilized and integrated with

the rest of our operations. By June 2006, our PVC resin capacity will be further expanded to 200 tons per day.

Power is a key input cost of all our operations and we have increased our captive power capacity from 85 megawatts to 125 megawatts at Kota. Currently the plants are operating at above 100% capacity. This has begun making a contribution to operations and in fact also enabled us to sell some power to the state electricity board.

Coming to our agri businesses, we are implementing sugar cane crushing and co-generation power capacity expansion initiative in our sugar business in central Uttar Pradesh at an investment of about 550 crore. Our capacity expansion in sugar is progressing as per plan. We are more than doubling our crushing capacity to 33000 tons per day from the current 14000 tons per day. Our two new plants will begin operations by the next crushing season. However, full benefit from them will be realized only in financial year 2008. Both the new plants have a capacity of 8000 tons each and have adequate command area for cane. We had exported 164.7 lakh units of power to the UP Power Corporation Limited during financial year 2006 from our existing 7.5 megawatt plant at Ajbapur. The last phase of our expansion of the co-gen power capacity is expected to be implemented by October 2007. Further, our 7.5 megawatt power plant at Ajbapur has been registered with the UNFCCC for carbon credits, and the total CER approved for the power plant are approximately 41000.

The fertilizer business faced pressure on margins since we received no reimbursement for cost increases in various inputs and bagging cost. To increase the competitiveness of this business, the Company has embarked upon a plan to convert its feed stock from naphtha to LNG. The Company awaits the announcement from the government of the third phase of pricing under the group retention scheme, which is effective from April 1<sup>st</sup>, 2006. We have added 12 new stores during 2006 to our rural retail business, the Hariyali Kisaan Bazaar chain. The number of stores now stands at 28, and we plan to increase the number significantly over the next two years. Our rural retailing initiative aims at meeting all the needs of the farmer and his family and provide with the modern and convenient shopping experience. This year the offerings from the stores were expanded to cover family needs such as FMCG products, consumer durables, pharma products, mobile handsets, and banking facilities.

Our Fenesta business demonstrated better performance during the year with fresh order bookings reaching 1.16 lakh windows as on March 31, 2006, compared to 0.26 lakh windows in the previous year. The gross value of the order book was Rs. 68 crore. We are planning to expand the capacity of our Fenesta extrusion plant at Kota from the current 1500 tons per annum to 3000 tons per annum and also the window fabrication capacity by setting up new fabrication shops in new cities and expanding the existing one. Fenesta is now present in several cities in North, West, and South India.

With our new businesses showing a strong growth momentum all our planned expansions completed and our sugar capacity expected to double by the next season, going forward we expect volume growth in all our businesses to continue.

With this I would like to conclude my remark and hand over to Vikram to take you through the results of the quarter and year ending 31<sup>st</sup> March 2006. Thank you.

**Vikram Shriram:** Thank you. Good afternoon Ladies and Gentlemen. Thank you for joining us on this earnings call today. I will quickly run you through the Company's financial numbers

for quarter four and financial year ended 2006, after which we will be happy to respond to queries that you may have.

For the quarter under review, our net revenues were Rs. 515 crore, implying a 12% improvement over Rs. 461 crore last year with revenues from traded products increasing by 19% to Rs. 106 crore. The increase in revenues was due to higher volumes in chlor-alkali and PVC businesses and higher prices in sugar and cement businesses.

Our new initiative Hariyali Kisaan Bazaar and Fenesta also contributed to the increase in the Company's top line. Interest costs and depreciation were higher because of expanded capacities in chemicals, plastics, and sugar businesses. PBT for the quarter before exceptional items went up by 13% to Rs. 38.57 crore. PAT for quarter for financial year 2006 at Rs. 26.02 crore was lower compared to last year's fourth quarter. Here I would like to point out that last year we received a net credit on account of exceptional items and non-recurring tax credit.

For the full financial year 2006, net revenues increased by 30% to Rs. 2,333 crore as compared to Rs. 1,800 crore in the previous year. Operating profit was higher by 25% at Rs. 284 crore. This growth was mainly due to higher volumes in chemicals and sugar business, better margins in the chemical businesses in the first half of the year and better realizations in the cement business. PBT before exceptional items increased by 19% to Rs. 165 crore, and profit after tax increased 10% to Rs. 115 crore as compared to Rs. 104 crore in the previous year. EPS for the year was Rs. 6.94 on a face value of Rs. 2 per share.

This year I believe we delivered an admirable performance across all our segments in spite of increases in prices of our key inputs. To give you an example furnace oil prices increased from Rs. 12,000 per ton in April 2005 to Rs. 18,000 per ton in March 2006. In order to ease the impact of rising furnace oil prices we are planning other fuel options to generate power at our Bharuch facility. Our Kota facility is already self sufficient with thermal power. Similarly, we observed an up trend in prices for coal and carbon materials that are key inputs for our Chlor-Alkali and PVC operation. At the same time, we also witnessed a softening of Chlor-Alkali and PVC prices during the year. However, higher volumes in these businesses alleviated the effect of price erosion to some extent. Although prices for products like PVC and Chlor-Alkali tend to be market driven and difficult to predict we believe that high oil prices and continued strong economic growth and increased application of PVC products in various industries are likely to sustain demand in these businesses.

Our sugar business delivered better revenues during the fourth quarter due to continued up trend in realization. Our capacity expansions in the current year will also make us one of the major players in the domestic sector. With our major expansions completed and in view of our very competitive cost structure, we expect strong volume and revenue growth in the future.

We would now be happy to take the questions. Thank you.

**Moderator:** Thank you very much Sir. We will now begin the Q&A interactive session. To First question comes from Ms. Abhilasha Sable of Techno Shares. You can go ahead Madam.

**Abhilasha Sable:** Hello, I wanted to ask the overall Chlor-Alkali realization for the year and what are the prices as of now?

**Ajay Shriram:** Pardon me, could you kindly repeat that please?

**Abhilasha Sable:** Your realization for Chlor-Alkali business?

**Ajay Shriram:** Yes, for which period?

**Abhilasha Sable:** For the year?

**Ajay Shriram:** For the last year, our average realization was 20,529 that was the average for the last financial year.

**Abhilasha Sable:** And could you tell me for this quarter?

**Ajay Shriram:** We have got two units, one at Kota and one at Bharuch, and the Kota realizations are running at Rs. 19,000 per tonne / ECU and the Bharuch ones are running at Rs. 22,000 per tonne/ ECU.

**Abhilasha Sable:** Okay. Thank you, and what about sugar, how much was your realization for sugar business?

**Ajay Shriram:** Our average realization for last year for sugar was Rs.16,976.

**Abhilasha Sable:** Okay. Thank you.

**Moderator:** Thank you very much Madam. Next in line, we have Ms. Sangeeta Tripathi from Anand Rathi.

**Sangeeta Tripathi:** Just wanted to ask you about the status of the development of land at Delhi. We have land at Delhi, so what is the status of that?

**Ajay Shriram:** See, this land in Delhi, we have applied to the Government of Delhi for various permissions to develop it as per the guidelines laid down by the Government and we have made an application. The process of getting approvals is on, and we are waiting for that to happen. Our expectation is that it will take maybe anywhere from 10-12 months.

**Sangeeta Tripathi:** 10-12 months?

**Ajay Shriram:** Yes.

**Sangeeta Tripathi:** Okay, and what are the rates at that place and what kind of appreciation are you expecting?

**Ajay Shriram:** See we do not know. We have not actually got into valuations of property right now because we feel this is premature, there is nothing coming up as of today because we are not in a position to build anything on it because of the approval process, but real estate prices like everywhere else are moving in Delhi also, and frankly I will be honest, I am sorry I do not have a figure of what the values are there, I would not know that.

**Sangeeta Tripathi:** Okay fine. One more question. Your total capex for the period between April 2004 to 2007 is Rs. 900 crore, right?

**Ajay Shriram:** Yes, little more, maybe around Rs. 1,000 crore.

**Sangeeta Tripathi:** Okay Rs. 1000 crore, and of that Rs. 550 crore is given for sugar business?

**Ajay Shriram:** Correct.

**Sangeeta Tripathi:** So as of now what amount have you expended on capital expenditure?

**Ajay Shriram:** That means, now from the sugar the balance we have to incur is about Rs. 300 crore.

**Sangeeta Tripathi:** For sugar balance Rs. 300 crore is yet to be incurred?

**Ajay Shriram:** Correct, that is going to happen from now till November this year for expansion of our capacities for the two new factories and the expansion of the existing factory.

**Sangeeta Tripathi:** Okay, so 250 is yet to be incurred for sugar?

**Ajay Shriram:** Yes, about 300 is yet to be incurred for sugar.

**Sangeeta Tripathi:** Okay, 300 yet to be incurred for sugar and Rs. 350 crore for this Chlor-Alkali and all those facilities that has already been incurred right?

**Ajay Shriram:** Correct, that is completed.

**Sangeeta Tripathi:** So, I can assume safely 250 plus 350, around Rs. 600 crore has been incurred?

**Ajay Shriram:** Yes, that is right.

**Sangeeta Tripathi:** Okay. One more question. It is about the closing stock. What amount of closing stock you have for sugar as on March 31, 2006?

**Ajay Shriram:** Just a minute. We have about 11 lakh bags of sugar as closing stock as on March 31, 2006.

**Sangeeta Tripathi:** 11 lakh bags?

**Ajay Shriram:** Right.

**Sangeeta Tripathi:** Okay, and you said that the full effect will be seen that sugar expanded capacity will be seen in the year 2008, so what amount you are expecting to crush in 2007, for the sugar season 2006-07?

**Ajay Shriram:** All the four factories combined, if I may give you a breakup for each of the factories, in terms of the actual crush we expect to crush about 350 lakh quintals of sugarcane in this coming season and the breakup of that would be that in our Ajbapur factory it is about 140 lakh quintals, in Rupapur about 90 lakh quintals, in those two new factories Hariwan and Loni we expect to crush about 60 lakh quintals each.

**Sangeeta Tripathi:** Okay, and there will not be any problem as far as the procurement of sugarcane is concerned?

**Ajay Shriram:** Well, that is why actually the two new factories even though the area is virgin and it is captive cane area, but cane development work is going on, that is why we have targeted 60 lakh quintals in each factory. Year after that we expect this to increase substantially because of the efforts for that we are putting in now.

**Sangeeta Tripathi:** Okay, so you are expecting that in 2007 you will have a crunch of cane?

**Ajay Shriram:** Let me put it this way. Because it is a virgin area, there are no factories there at all. We have done cane development work there for the last year-and-a-half to two years as per our plan when a new factory of 8,000 ton comes in. We expect to have about 60 lakh quintals cane available to crush in each of these two new sites.

**Sangeeta Tripathi:** Okay, and what was your average recovery for this year, the entire recovery in sugar?

**Ajay Shriram:** Well in Ajbapur factory, it was 10.3% and the Rupapur factory was 9.23%.

**Sangeeta Tripathi:** Okay. Thank you so much.

**Moderator:** Thank you very much Madam. Next question comes from Mr. Sachin Kasera of Pioneer Intermediaries.

**Sachin Kasera:** You just gave the figure expected crushing for sugar season 2006-07, could you also share with us the figures for the recently concluded season, that is 2005-06?

**Ajay Shriram:** In 2005-06, we totally crushed 181 lakh quintals.

**Sachin Kasera:** Okay, and what would be breakup?

**Ajay Shriram:** Breakup was, Ajbapur factory was 103 lakh quintals and Rupapur factory was 78 lakhs quintals.

**Sachin Kasera:** Okay, secondly regarding this sugar expansion that we are doing, I believe you are eligible for this incentive from the UP Government, so would we be able to account some of the incentive in the FY07? How are we going to do it on accrual basis or on actual realization basis, how would we account for the incentives?

**J.K Jain:** Sachin, there are two incentives. One is capital subsidy that we should be able to account for on accrual basis. The balance we will go receipt cases only.

**Sachin Kasera:** Okay, that means from the documentation that we have done, is there any specific time period from say the time we sell the sugar and the time we realize the incentive is there a time gap between them?

**Ajay Shriram:** No, right now the accrual process is still to be initiated because that you can do after you complete the expenditure, okay, so we will start the accrual process in October-November only.

**Sachin Kasera:** Okay, and secondly this power capacity that we are planning to increase it to 81 MW. Could you just tell us specifically plant wise, how much will be the capacity be, a breakup ofn all the four factories?

**J.K .Jain:** We do not have that break up off hand, but basically what we are seeing is out of 82 MW, 38 MW we will set up for export, balance captive consumption.

**Sachin Kasera:** Okay. Not a problem, and secondly regarding this, can you throw any light on how was the revenue this year from cement, Fenesta, and Hariyali Kisaan separately because I believe it is clubbed under new initiative segment?

**Ajay Shriram:** We do not have that figure right here, because the consolidate comes under "others", but we expect to have good growth in all these areas in the coming year. In the coming year, as you are aware, sugar realization has gone up which will help us in terms of higher turnover. Similarly, in coming year our Fenesta business as I mentioned earlier was with a good pending order position, so that will also help in terms of a good turnover, and similarly Hariyali because that is also growing rapidly.

**Sachin Kasera:** Hariyali, how much are we targeting in FY07 for Hariyali, in terms of number of stores?

**Ajay Shriram:** You see, in this last financial year we had added 12 new stores. In this coming financial year, we expect to add about 25 new stores, so we should go up to about 50-55 stores by the end of this existing financial year.

**Sachin Kasera:** Okay, and do you expect at least a cash breakeven in the Hariyali Kisaan next year?

**Ajay Shriram:** No, I think retail business takes longer. By the time we get a larger number of customers and publicity goes up and sort of falls in place, that takes a little time, but we do expect, between two to three years depending on the location of the shop, that we should come to a break even at the shop level, and corporate office expenses and all that is over and above that.

**Sachin Kasera:** Okay, is there any particular figure that we can look at, say for example let say when you reach say a turnover of around Rs. 500 crore in say 50 stores or say Rs. 1,000 crore and 75 stores, when we can actually start looking in terms of getting a break even?

**Ajay Shriram:** I do not think we really try to work it out that way, we do not really try to give a figure like this, each store has its own dynamics, it has its own local population around, it has its own number of people who come to the store, the size of the store also vary marginally depending on the requirement there. New stores costs come in new, and we are expanding -- actually we are putting in more and more capex into the business.

**Sachin Kasera:** And, you just mentioned that there is almost a Rs. 3 per kg difference in the realization between Chlor-Alkali facility at Kota and Bharuch, is it primarily because of the regional sector?

**Ajay Shriram:** Basically, it is because of that, and actually the price fluctuates somewhat, I mean, caustic soda price today also is linked to the international price and on supply demand, but it is basically a regional issue.

**Sachin Kasera:** And, on the chemical side, do we have any hang on what sort of capacity addition in FY2006 because I believe in the second half because of the increased supply, there was a pressure on the prices especially on the caustic soda side, so do you have any data in terms of what was the approximate capacity that was added in India in FY06 in Chlor-Alkali?

**Vikram Shriram:** We are trying to get that, but I think it is about 2 lakh tons were added last year.

**Sachin Kasera:** And one last question. Regarding the debt as on FY06, could you give a breakup between working capital and term loan debt on the balance sheet as on FY06?

**J.K Jain:** Sachin, we had long term debt of Rs. 750 crore, and short term debt of about Rs. 350 crore.

**Sachin Kasera:** Okay. Thank you very much.

**Ajay Shriram:** Thank you.

**Moderator:** Thank you very much Sir. Next in line, we have Ms. Nehal Mehta of Unitis Tower Capital.

**Nehal Mehta:** I wanted to know what are the real estate plans of the Company for 2006-2007?

**Ajay Shriram:** Well, as I mentioned little earlier that we have applied to the Delhi Government for permission to develop a real estate based on the law of land, the master plan in Delhi under the guidelines given by the Supreme Court in 1996 when we closed down this units and asked us to relocate. So we have applied to the government. It is a long process. The number of clearances we have to get is fairly large. We are hoping in 10-12 month's time we should get these clearances. It is moving and frankly I am not sure, I do not think something will happen in this financial year because it takes time for getting all these clearances.

**Nehal Mehta:** Okay. Thank you Sir.

**Ajay Shriram:** Thank you.

**Moderator:** Thank you very much Madam. Next in line, we have Mr. Pankaj Talwar of Titanium Capital.

**Pankaj Talwar:** My question again is around the land bank you have in Delhi. What is the total area?

**Ajay Shriram:** The total we have is 112 acres of land.

**Pankaj Talwar:** And how much have is free with you to like develop or sell?

**Ajay Shriram:** As per the Supreme Court order under which we closed the operation, we can develop 32% of that land.

And the balance 68% has to be left as a green belt.

**Pankaj Talwar:** Okay.

**Ajay Shriram:** So based on this we can develop a total of about 3.8 million square feet.

**Pankaj Talwar:** 3.8 million square feet.

**Ajay Shriram:** Out of which 50% is the share of our Company and 50% is the share of our partner who bought into this in 1996.

**Pankaj Talwar:** Okay, partner is another group company?

**Ajay Shriram:** No, it is a company in Indonesia, it is Indo Rama group of Indonesia.

**Pankaj Talwar:** Right.

**Ajay Shriram:** So the break up is about 3 million square feet is residential. About 0.3 million square feet is retail and mall etc., and 0.5 million square feet is IT and ITES. So that is the breakup of the total 3.8 million.

**Pankaj Talwar:** And do you plan to develop it yourself or you plan to sell the land what is your...?

**Ajay Shriram:** Well as of now we have applied to the Government for permission to develop the land.

**Pankaj Talwar:** Develop the land.

**Ajay Shriram:** Yes.

**Pankaj Talwar:** So, I am asking this question because looking at the businesses you are in, you have never done development of land before so this is a new business you will venture into.

**Ajay Shriram:** Well, I know, but our partner has done developmental projects in Indonesia. He has done quite a bit there so that value addition will come to us.

**Pankaj Talwar:** So all this will get cleared only in the next financial year I think.

**Ajay Shriram:** Yes, I am sure you know it as much as I do that Government clearances takes time. And moving through various this thing., you don't know when it is going to happen but we think it will take 10-12 months something like that.

**Pankaj Talwar:** And which part of Delhi is this land in, I am quite familiar with Delhi.

**Ajay Shriram:** Okay, this is in west Delhi on Najafgarh Road.

**Pankaj Talwar:** Right.

**Ajay Shriram:** If you are familiar with Patel Nagar.

**Pankaj Talwar:** Right I am.

**Ajay Shriram:** From Connaught Place if should go to Patel Nagar and go beyond Patel Nagar until one, you go via the \_Shakurbasti flyover you come to Rama Road crossing.

**Pankaj Talwar:** Right.

**Ajay Shriram:** And from there you go down straight on to Najafgarh Road you turn right and one kilometer down is the block.

**Pankaj Talwar:** So you cross Moti Nagar?

**Ajay Shriram:** Yes, correct.

**Pankaj Talwar:** After Moti Nagar?

**Ajay Shriram:** Yes.

**J.K Jain:** From Motinagar Chowk if you turn right on Shivaji Marg, it used to be Campa cola factory.

**Pankaj Talwar:** Right, right, right.

**Male Speaker:** Just opposite.

**Pankaj Talwar:** Just opposite Campa cola factory, right. Now that land is totally free no encroachments nothing there?

**Ajay Shriram:** No, nothing.

**Male Speaker:** All cleared up.

**Pankaj Talwar:** All cleared up. And what would be, I don't know, any of you guys, you know, your finance director would know what is the land value there in that part of Delhi?

**Vikram Shriram:** I don't know, frankly we have not gone into that because it is too premature to look at things like this, we have not really got into that. At a moment the focus is really on how to get the clearances to take the next step.

**Pankaj Talwar:** Right, right. And Haryali stores, another question on this land, are you owning all the Haryali stores or are they leased, how are the economics in Haryali stores?

**Ajay Shriram:** No, we own the land where all the stores are put up. And except for one store which we run on the franchise basis, all the other stores are owned and run by the Company.

**Pankaj Talwar:** Okay, and that is the plan you want to follow, owning them?

**Ajay Shriram:** Correct, correct.

**Pankaj Talwar:** Okay, great. Thank you very much.

**Ajay Shriram:** Thank you.

**Moderator:** Thank you very much Sir. Next in line we have Ms. Sandhya Yanamandra from Crisil Research.

**Sandhya Yanamandra:** Could you please tell me what is the capital cost of conversion from naphtha to LNG?

**Vikram Shriram:** The approximate cost we will incur for naphtha to LNG is going to about Rs. 36 crore, for converting from naphtha to LNG.

**Sandhya Yanamandra:** And on a per ton basis this comes to around?

**Vikram Shriram:** On the per ton basis?

**Sandhya Yanamandra:** Yes.

**Vikram Shriram:** I think you calculate it \_ we have capacity of 3.8 lakh tons, so 3.8 lakh tons and Rs. 36 crore...

**Sandhya Yanamandra:** Okay, I can calculate it. Thanks..

**Vikram Shriram:** Thank you.

**Moderator:** Thank you very much Madam. Next in line we have Nandita Parker of Karma Capital.

**Nandita Parker:** I wanted to check, are you eligible or have you applied for carbon credit?

**Ajay Shriram:** As I said that we have got the clearance, we have got approval for the 41,000 CERs for the 7.5 megawatt plant and now we are moving in the process to get money for this, it is a matter of when to get it, I believe the prices of CER have fallen in the recent past, so we will see when it is best time to do it.

**Nandita Parker:** Sorry, I missed that how much did you say you have got clearance for?

**Ajay Shriram:** 41,000 CER.

**Nandita Parker:** Okay.

**Ajay Shriram:** We have also applied for a 20 megawatt power generation plant in our sugar business.

**Nandita Parker:** Right.

**Ajay Shriram:** So that is under approval of various authorities to get the carbon credits for that also.

**Nandita Parker:** Right, and what would that be in terms of CER.

**Ajay Shriram:** It will be approximately 3 times, it will be, 110,000 or 115,000.

**Nandita Parker:** Right. Okay. Thanks.

**Ajay Shriram:** Thanks.

**Moderator:** Thank you very much Madam. Next we have a follow-up question from Mr. Sachin Kasera of Pioneer Intermediaries.

**Sachin Kasera:** Could you just let us know the PLF that you operate in the sugar factories, your power plant, and what is the approximately number of days you are able to operate the power plant in the full year?

**Ajay Shriram:** The sugar factory run on a, see because the sugar factory itself runs on seasonal basis, it depends on how much bagasse we are able to store, which actually maybe a month and half to two months we can run more, we store bagasse. Otherwise we cannot run it because these plants are really geared for bagasse as fuel.

**Sachin Kasera:** Right, right, I know that...

**Ajay Shriram:** So that is why the PLF there is difficult to actually work out, I don't know how it will be if you work out, but the issue which comes in is that during the season based on our work at the sugar factory we are now able to sell power by the co-generation rules and that is giving us additional revenue, which is adding to the Company's top line and the bottom line.

**Sachin Kasera:** No, but at least during the season say the 150-160 days that we operate, if we were even to remove the off season period...

**Ajay Shriram:** Yes, over here during the season we will be running at about 94-95% PLF.

**Sachin Kasera:** Okay.

**Ajay Shriram:** During the season time.

**Sachin Kasera:** Okay, and this, of this 24 megawatt right now how much of that is exportable Sir?

**Ajay Shriram:** We already export 7.5 megawatts.

**Sachin Kasera:** Right now we are exporting 7.5 megawatts.

**Ajay Shriram:** We are adding another 20 megawatts.

**Sachin Kasera:** Okay.

**Ajay Shriram:** Which will be commissioned now basically in the next couple of months, but it will be functional really in the next season because that is when the bagasse will be available.

**Sachin Kasera:** Right, right.

**Ajay Shriram:** So that will be available then.

**Sachin Kasera:** So, basically when this new capacity for sugar comes up you would have sufficient capacity available in-house to be able to meet the power requirements. for...

**Ajay Shriram:** Oh yes, absolutely, absolutely.

**J.K. Jain:** No Sachin, besides that we will have, we will be in a position to export 27 megawatt, captive requirements will be met definitely.

**Sachin Kasera:** But this increasing of capacity to 78 megawatt is happening in October 2006 or it is happening in October 2007?

**J.K.Jain:** No, see, total exportable power we will have 38 megawatt on the completion of the program.

**Sachin Kasera:** Right.

**Vikram Shriram:** Now that 38 MW will become operational in October 2007.

**Sachin Kasera:** Okay.

**Vikram Shriram:** For 27MW will become operational in October 2006.

**Sachin Kasera:** Okay, and so of this 27 that is becoming operational in October 2006 will there be any surplus from their, or it will only be all for this...

**J.K Jain:** This 27 is meant for export only.

**Sachin Kasera:** Okay.

**J.K Jain:** The captive is in addition to that. See we said that total we will have 82 megawatts power in sugar. Out of which 38 is for export.

**Sachin Kasera:** Right.

**J.K Jain:** And 44 is captive.

**Sachin Kasera:** Right.

**J.K Jain:** 44 captive will all be operational by October-November 2006. Out of the exportable power of 38 megawatts, 27 will be operational by October 2006.

**Sachin Kasera:** Okay, so only 7 or 8 megawatts is what will be the...

**J.K Jain :** 11-12 megawatts will be commissioned by October 2007.

**Sachin Kasera:** Okay, large part would be commissioned in this season itself?

**J.K Jain:** Yes, Yes, absolutely correct.

**Sachin Kasera:** Okay, okay. And could you also share the revenue from molasses and sugar for the fiscal, sorry molasses and bagasse..?

**J.K Jain:** See revenue in the sense, it does not get added to the top line, it gets credited to the cost.

**Sachin Kasera:** Right, right.

**J.K Jain:** But we sell entire molasses whatever we generate because we don't have distillery.

**Sachin Kasera:** Right, right.

**J.K Jain:** So, it won't form part of the top line.

**Sachin Kasera:** Okay, so we are not booking that as revenue? It directly comes into...

**J.K Jain:** It gets booked, it gets credited to cost Sachin in the inventory cost.

**Sachin Kasera:** Okay, okay. Fine. Thank you.

**Moderator:** Thank you very much Sir. Next in line we have a follow-up question from Ms. Nandita Parker of Karma Capital.

**Nandita Parker:** Thank you. Mr. Jain, what would be the effective tax rate this year?

**J. K. Jain:** This current financial year?

**Nandita Parker:** FY2007.

**J. K. Jain:** FY07, it should be about 28-29% including deferred tax.

**Nandita Parker:** Including deferred, okay.

**J. K. Jain:** Yes.

**Nandita Parker:** Thank you.

**J. K. Jain:** Thank you.

**Moderator:** Thank you very much Madam. We have a follow-up question from Ms. Sandhya Yanamandra of Crisil Research.

**Sandhya Yanamandra:** There are two small questions, one is, what is the per unit realization of molasses, I mean to say what is the realization of molasses in the market right now for you?

**J. K. Jain:** It is about Rs. 240 per quintal.

**Sandhya Yanamandra:** Great. One more question on the fertilisers side, what is the LNG price at which you are contracting LNG now?

**Rajiv Sinha:** We still don't have a contract in place. We are in discussions with GAIL and others, and we are moving, in the meantime GAIL is already laying the pipeline which will carry the gas to our doorstep.

**Sandhya Yanamandra:** By when is that expected?

**Rajiv Sinha:** We would complete this in the second quarter of this financial year.

**Sandhya Yanamandra:** Okay, and yet the price is market contracted, prices are market decided?

**Rajiv Sinha:** Once we are ready, these days gas pricing and availability is the major issue, but what we are doing is we are developing the capability to be able to use gas, and in the meantime as I said GAIL is laying the pipeline, and I am sure there will be some ways to take it forward. There is a great amount of uncertainty at this point of time on the availability and pricing of LNG.

**Sandhya Yanamandra:** Okay. Thank you.

**Rajiv Sinha:** Thanks.

**Moderator:** Thank you very much Madam. Next in line we have Mr. Vinit Sambre Sambre of DSP Merrill Lynch.

**Vinit Sambre:** What has been your experience for some of the initial or the older Haryana Kisaan Kendras, have you been experiencing profit in them?

**Ajay Shriram:** As I mentioned, after couple of years of operations of the shop we are finding that we are coming to a break even in the shop.

**Vinit Sambre:** This is for almost 16 shops you have which you have been running for the last 2 years now, so if you can share with us your experience there in terms of whether on net level some of the older ones, 1, 2, 3, 4 have they turned profitable or no till now?

**Ajay Shriram:** See the older shops which have been running for more than 1 - 1.5 years, are at the shop level already showing profit.

**Vinit Sambre:** On a net level?

**Vikram Shriram:** That is right, at the shop level, and this situation is improving further because we have started adding non-agri categories only during the last few months. We have gone into lot of FMCG items as Mr. Ajay Shriram explained in the beginning.

**Vinit Sambre:** Yes.

**Vikram Shriram:** And these categories have been added very recently and in fact we are in the process of multiplying these categories in the coming days... So we expect this to actually improve the position further for these stores.

**Vinit Sambre:** And how does the marketing for your Haryali Kisaan Kendra takes place, I mean, how do you ensure that you have enough customers there from surrounding villages?

**Ajay Shriram:** We have a very extensive out reach program from every Haryali store, this started with, the Haryali has 2 parts, one in the retail product offering and other is, we use technical service offering that is being done free of cost from each Haryali store, where we have a team of agronomists who reach out to all the farmers in the catchment area by literally personally approaching each one of them. So that itself serves as the major goodwill point to bring the farmers to our stores, and now since we are adding more categories of items which are of good quality and at a price which is comparable or good, we are seeing, the number of foot count has not really been an issue with us. Seasonality has been an issue and that is why after we have added non-agri category, the seasonality aspect is also getting improved.

**Vinit Sambre:** Okay. Just to understand the bifurcation in your quarterly statement when you classify others, we have Haryali, Fenesta, and cement in that, right?

**J. K. Jain:** We have Haryali, Fenesta, cement, and the textile business.

**Vinit Sambre:** Okay, and the profit which you have shown this quarter of Rs. 1.4 crore, is it largely on account of cement business or we have some other business also which have turned profitable?

**J. K. Jain:** No, it is cement business.

**Vinit Sambre:** Okay. Thanks. Thanks a lot.

**Ajay Shriram:** Thank you.

**Moderator:** Thank you very much Sir. Next in line we have Mr. Manish Bhandari from ING Vysya Mutual Fund.

**Manish Bhandari:** I wanted to know your views on fertilizer business and if this could be, since you said that you have not received input cost escalation, so when you plan to achieve that?

**Vikram Shriram:** From April 1, 2006 as Mr. Shriram was explaining the Phase three of the revised fertilizer pricing policy has to come in place.

**Manish Bhandari:** That is right.

**Vikram Shriram:** Based on discussions which Professor Alag's group has put forward we believe that as of now the way the policy is being structured would address some of these concerns on cost escalation of bags and some selling expenses etc., but as of now this policy recommended by Professor Alag is awaiting the approval of various ministries and then finally the cabinet. So we cannot really say what will be the exact position unless, if there is any change at the last moment it is very difficult to predict how this will go.

**Manish Bhandari:** Okay. Thanks a lot.

**Vikram Shriram:** Thank you.

**Moderator:** Thank you very much Sir. Next we have a follow-up question from Mr. Sachin Kasera of Pioneer Intermediaries.

**Sachin Kasera:** In this chemical division we have recently seen some sharp rise in terms of the caustic soda prices, so could you throw some light on that and as to whether that is sustainable, and also your outlook on PVC because I believe both chemical and PVC last, second half of FY2006 the prices have been very-very subdued, so how do we see that trend going forward?

**Ajay Shriram:** In the chemicals business, it is stable right now, we are hoping it continues in the steady way because now all these businesses the prices are dependent on the international prices. Whatever trends happen internationally in PVC or in caustic soda the effect of that immediately comes up over here. So we do feel that they should be stable in terms of PVC, compared to the last couple of quarters of the last year, this year the prices have moved up marginally. From a realization of Rs. 38 per kg which we got last year, now it is running about 40-41. So we are hoping it continues the stable position like this. I think slightly for PVC possibly with the crude oil prices also being high have had an impact on the selling prices, so that also has an impact, so it should be somewhat stable, little ups and downs in commodity will happen but it should be stable also.

**Sachin Kasera:** Okay, what is the scene on the chemical front?

**Ajay Shriram:** On chemicals also as we mentioned last year the realization now are running on an average, between Kota and Baruch, maybe around Rs. 20-21 thousand. We think we should be in that range maybe little bit up and down. Also, things happen very rapidly, frankly speaking if someone imports a large quantity, it goes down for sometime, then it goes up again, or Reliance buys chlorine, and suddenly we find that the chlorine market becomes better, so all these affect quite a bit, but it should be stable. I don't think we will see any major swing.

**Sachin Kasera:** But in case of PVC we have seen a very sharp decline from around Rs. 47-48 a kg around a year back to almost Rs. 38, so considering that you have mentioned that it is more or less in line with international factors, so what has been the key factors internationally to cause such a sharp decline, because I believe the overall petrochemical cycle still continues to be in an upswing, most of the base raw materials are on a higher side, so what is that suddenly caused a 20-25% decline in the PVC price globally?

**Rajiv Sinha:** There are 2 factors one is the decline globally and the second is the way they are reflected in India. In the last 2 years we have seen the custom duty on PVC coming dramatically from 20% to 5%. So even with the same international prices there is a sharp drop in the domestic prices, and what you saw in the quarters of FY2005 or even the first 2 quarters of FY06 reflected the higher custom duties which were prevalent at that time. So that is the direct impact which is the domestic issue. Internationally, the prices around the Katrina situation did go very much higher, but they have sort of leveled out to around 790-800 dollars and they have been sort of hovering around this level for some time now. In fact they will improve, they had gone down to as much as 740 dollars, so they are back to about 780-790

dollars, even 800 dollars. So those aberrations are over. So what we are seeing is a more stable market situation as of now, and as always the way the China production and consumption take place will continue to sort of impact on these prices especially in South East regions and that is always a bit of a uncertain position.

**Sachin Kasera:** Okay. Thank you.

**Moderator:** Thank you very much Sir. Next in line we have Mr. Amol Kotak of ASK Raymond James.

**Amol Kotak:** I wanted to know about the development of the land as you had mentioned earlier that it will take another 10 months for the government clearance and all. Is there an indication that the management is planning to get into the real estate business?

**Ajay Shriram:** Pardon me, sorry, could you kindly repeat the last part of the question?

**Amol Kotak:** I said, is the management planning to get into the real estate business post the development, post the clearance of the development?

**Ajay Shriram:** Yes, frankly it is not a matter of business, you have got this good project which is there, and we are moving to get the clearances to move and develop it.

**Amol Kotak:** Okay, Yes. Thank you.

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

**Ajay Shriram:** Thank you. Thank you Ladies and Gentlemen for joining us for this conference call for our results and for the quarter as well as the financial year. We tried to share with you what is happening and we are quite bullish on the way the Company is going ahead. As indicated, our operations are running smoothly. We think the market support is also there on some of the businesses in terms of realization, and we expect a satisfactory year in the coming year. Thank you very much.

**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 and have a nice evening.

- ENDS -

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