



**DCM Shriram Consolidated Limited
Q1 FY2010 Earnings Conference Call
July 27, 2009 at 11:30 a.m.**

Moderator: Good morning Ladies and Gentlemen. Welcome to the DCM Shriram Consolidated Limited Q1 FY'10 Conference Call. I am Priyanka, the moderator for this conference. 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 from Citigate Dewe Rogerson. Thank you and over to you sir.

Ishan Selarka: Thank you Priyanka. Good morning everyone. Welcome and thank you for joining us on DSCL Q1 FY'10 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; Mr. Ajit Shriram, Director – Sugar; and Mr. J. K. Jain, CFO of the Company.

You may want to keep in mind that some of the statements being made on this call may be forward looking and a note to that effect was 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 on the Company's operation in the quarter under review. Over to you sir.

Ajay Shriram: Thank you Ishan. Good morning ladies and gentlemen, and a very welcome to DSCL Q1 FY 2010 Conference Call. I am glad to report another quarter of satisfying performance of the Company. Our Company continued to register operational and financial progress during the quarter.

In the Agri-Rural businesses, the fertilizer plant has switched to natural gas fully during the quarter, which has helped in reducing the working capital requirements through lower subsidy. We have taken a maintenance shutdown of the plant in July, after the gap of 3 years, and the operations are expected to further improve thereafter.

'Sugar' as you know is seeing improvement in selling price, though we believe that it is still below the level which provides reasonable return to sugar mill and to cane

farmers. The price increase has meant that the mills have +ve margins vis-à-vis –ve margins last year. The future margins will, however, depend on movement in sugar prices in view of sharp increase in cane costs and other cost of production.

The Bio-seed and Agri input businesses are registering good progress based on strong product portfolio, market penetration and extension activity with farmers. Delayed and less rains however is a cause of concern for these businesses. Our multi-regional presence (including the Bio-seed operations in other Asian countries) does provide some hedge against this.

‘Hariyali Kisaan Bazaar’ has increased to over 300 outlets and is increasingly making an impact on the profitability and lives of farmers and other rural households. It is expanding its offerings, strengthening supply chain and improving process efficiencies so as to grow at an accelerated pace in coming years.

Moving on to the Chloro-Vinyl side, our strategy is to improve cost competitiveness and optimize the product mix to enhance earnings potential from every unit of power generated. During the quarter, we continued to leverage our swing capabilities to maximise our earnings in periods when the prices of Chlor-alkali and PVC have been under pressure. The enhanced capacities and new coal based power plant at Bharuch facility enabled higher revenues and cost savings which helped in better handling the price pressure. The new plant has fully stabilised and is running at almost 100% capacity.

Fenesta continued to register profit growth based on overall volume growth in both institutional and retail segment. We are increasing geographical coverage to A&B class cities and extending our dealer networks for deeper penetration of the retail market.

With all projects completed, we are using all our internal generation to strengthen our balance sheet and position ourselves for growth in future.

Now, I will request Vikram to take you through the financial numbers for Q1 FY2010. Thank you.

Vikram Shriram: Thank you, Good morning ladies and gentlemen. I will now summarize the numbers for the quarter ended June 30th 2009, which reflect the stability in our business model.

During the quarter, the Company registered ~ 13% growth in revenues and 49% growth in EBIDTA to Rs. 898 Crore and Rs. 101 Crore respectively over the same period last year, reflecting improvements in overall margins from 8.5% to 11.3%. The revenue growth was largely contributed by Sugar, Agri Inputs and Hariyali Kisaan Bazaar businesses. Fertilizer had de-growth in value terms due to reduction in retention prices consequent to reduction in feed stock costs with change over to gas

vis-à-vis very high price naphtha last year. The Chloro-Vinyl segment also had –ve growth as we shifted the product mix to sale of more power than products.

EBIDTA growth was driven by higher sales volume and better margins in sugar, Cement and Agri-Inputs. The Fenesta and Polymer Compounding businesses also recorded EBITDA growth. The EBITDA numbers also improved due to lower cost of foreign exchange variation and small gain on fertilizer bond vis-à-vis loss of Rs.9.5 Crore last year.

Interest expenditure was almost flat and tax rate was also same in both periods. The tax expenditure includes provision for FBT amounting to ~ Rs. 0.8 Crore which will get reversed in Q2.

Cash Profit for the quarter was Rs. 71.6 Crore (last year Rs. 39.8 Crore) and PAT was Rs. 21.2 Crore (vs. last year Rs. 4.9 Crore)

Now let me explain the business-wise performance.

Sugar registered a PBIT of Rs. 6 Crore against a loss of Rs. 9 Crore last year. Though Sugar prices registered healthy growth to reach over Rs. 2200 per quintal for the quarter, most of it was offset by increase in production costs due to high cane prices, lower sugar yield, and low production in sugar season 2008-09 and softening of molasses prices in the current quarter.

Agri-inputs business achieved 44% increase in revenues to reach Rs. 154 Crore The PBIT also grew from Rs. 5.8 Crore to Rs. 7.8 Crore The revenue growth was recorded across all product categories.

‘Fertilizer’ revenues were lower at Rs. 126.4 Crore largely due to reduction in realisations consequent to switch over the lower cost of Natural gas vis-à-vis the high cost of naphtha last year. The earnings were lower due to lower production and efficiencies which is normal before a maintenance shutdown which was completed recently. The volume and efficiencies will improve after the shutdown.

Hariyali Kisaan bazaar saw its revenues increased to Rs. 109 Crore from Rs. 87 Crore in Q4 last year. The losses at Rs. 16.56 Crore are sharply lower than Rs. 28.58 Crore in the preceding quarter. Barring, the effect of Monsoon, Hariyali is continuing to aim at reducing losses through increasing turnover and strengthening supply chain and product/business offerings.

The Chloro-Vinyl segment registered decline in revenues and PBIT as this segment saw sharp drop in product prices ~20-30% from peak of April-August, 2008. Our company was able to mitigate substantial part of the effect of this drop by dynamically altering the product mix to optimise the overall earnings as a result it could restrict the PBIT drop to about 11% at Rs. 56.30 Crore

The PBIT of Cement business witnessed a 90% increase at Rs. 12 Crore on the back of firm realisations and higher volumes.

The Company's other operations, reported as 'others' in the financial results; primarily include Fenesta Building Systems, polymer compounding and textiles. Revenues under 'others' grew by 19% at Rs. 71 Crore in the quarter under review. PBIT for the quarter stood at Rs. 1.2 Crore against a loss of Rs. (0.8) Crore last year. The healthy performance was aided by improved results in the Fenesta and Polymer Compounding business.

The reduction in unallocated net expenditure also helped in overall profit improvement. The reduction was due to lower charge on Foreign exchange fluctuation by Rs. 7.21 Crore and MTM on Fertilizer Bonds by Rs. 9.69 Crore.

On an overall basis, we believe our strategy is working well for us. We have built strong businesses across the Energy-led Chloro-Vinyl business as well as the Agrirural businesses. Further we are incubating and developing newer businesses which have exciting growth opportunities in the short to medium term. Our outlook for growth is sustained, and we look forward to the future with confidence.

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 Nirav Vasa from Gupta Equities. Please go ahead sir.

Nirav Vasa: In the first quarter of FY10, you sold 86,856 MT of sugar. Of this sugar, would it be possible for you to give break up of the sugar in terms of levy and non-levy sugar?

Ajit Shriram: 10% of our sugar goes to levy and the sale this quarter includes the release of buffer stock, which the government has been giving out in the quarter-wise basis for the last 2 years. So, that is the reason the sugar sales in this quarter were higher.

Nirav Vasa: What is the realization paid by government on levy sugar because now with the increase in price at which the SMP, has there been any increase in the price of levy sugar or is it still a subjudged matter?

Ajit Shriram: The levy sugar has been constant for the last 6 or 7 years at Rs. 13.40 / unit. This is far below the cost of production. In fact, this matter is in Supreme Court, where we are saying the levy sugar should be priced at SAP and not SMP because practically speaking we pay SAP to the farmers. We sell roughly 2 lakh quintals of levy sugar to

the government, and our losses on this front are roughly Rs. 25 Crore a year. This Rs. 25 Crore is the impact for the DSCL itself.

Nirav Vasu: The UP government has started inviting bids for its fixed sugar units that had Indian co-operatives and a number of co-operations; would the Company be interested in bidding for either of them?

Ajay Shriram: No. We have actually considered that, and considering our four factories as well as our focus on cane development and on getting our own cane area and cane intensity, our focus is there. We are not looking at bidding for anymore sugar factories.

Nirav Vasu: Considering that your power plant has been operational now, what would be your coal requirement per day?

Ajay Shriram: Gujarat is about 55 MW. This is 240 tonnes per hour power plant. Our requirement is about 25,000 to 30,000 tonnes a month, which we are importing. This coal has been imported largely from Indonesia.

Nirav Vasu: Is it done through a long-term coal supply agreement or it is short-term?

Ajay Shriram: Well, it is not done on a long-term basis because we are finding that the price of coal fluctuates quite substantially in the international markets, so what we have done is to make sure that we have enough stock for the entire monsoon period. We have enough stock till the end of October, but we do a spot purchase because we think that is more efficient.

Moderator: Thank you very much sir. Next in line, we have Mr. Avinash Nahata from IL&FS Investsmart. Over to you sir.

Avinash Nahata: My question pertains to Hariyali Kisaan Bazaar. Since it is emerging as one of the major cash deployment in our Company, we have a capital employed to the extent of Rs. 525 Crore till this quarter, what is the interest being capitalized and what is the other assets if I can have a breakup of Rs. 525 Crore.

J. K. Jain: No, we don't capitalize any interest. Interest is capitalized only when the asset is being set up.

Avinash Nahata: At the point of set up of your store when it is getting initiated, there is no interest component in this?

J. K. Jain: No, there is no interest because each store gets set up in less than a year, so we don't capitalize any interest on that.

Avinash Nahata: Are you satisfied with the revenues we are doing on a quarterly basis and what is the calibration management is doing in terms of if there is some business model change is evolving in this Hariyali Kisaan Bazaar, what are the major challenges we are facing in terms of revenue growth.

Ajay Shriram: Well, I think Hariyali you see being a rural business model, the purchasing power there is different from an urban model. However, there is a very structured mechanism of getting a feedback from all our store managers to get an idea of what is the customer's needs, the customer preferences, their price brackets, the customer ranges that they require, as well as what is happening whether there is competition in each area of each of our outlets. That is a very structured mechanism.

Simultaneously, we have our purchase people who are for each of the verticals, and they actually also tour the markets to get a feel and understanding of what the requirement is in those regional markets. We are finding state-by-state the requirements are very varied in terms of the apparel or the food or the taste. Everything is very different. So it is a very localized if I may say so, a regional business, which has to be managed at the grass-root level, and our people are spending a lot of time in the field.

Then, thirdly, we spend a lot of time with our vendors. They have their own feedback mechanism of what is moving in which part, so we get the feedback from them also. Simultaneously, we also keep spending time and have discussions our approach is really that throughout the India, no one really knows. No one has done or got a detailed consumer perception the way they have for urban India, so at any given time, we will be having may be 10 to 12 to 15 different trials of different products, different services, different offerings, just to get a feel and understanding what is required over there. So, it is actually something which is an ongoing activity where we are trying to gauge the needs of the customer. We have actually taken up one or two new activities comparatively in the last 4 months, which is one is milk collection. We feel that if we can encourage farmers to have cattle, and they can sell milk, they will have another added source of income, as well as having cattle will help in terms of providing them gohar, which can go into gohar gas plant that gives manure, that gives methane, so it is a win-win for everyone across the board, and of course, the farmers will get a better income for selling the milk, and we as a Company earn a commission and the margins on processing, on chilling the milk, and selling it to processors. So, it is a good business model, which is being grown.

Simultaneously, as you are aware, seeds are another area where we have a very extensive activity. That is already going on, so that is something where the activity levels are also quite good, and we also have a financial portfolio, where we are providing insurance, whether it is life insurance or general insurance. We have tied up with insurance companies like ICICI Pru, ICICI Lombard, and Bajaj Allianz, and also have tied up with ICICI and HDFC banks. We are talking to couple more public sectors banks, who also see how they can participate and partner with us to provide products for the farmers. So, I think the Hariyali model is something which is a learning curve all the way, and we are very aware of this. Our people are on the ground. They are getting a feedback, and we do feel that the growth which has happened is fairly good. The trust we have built up is fairly good, and we are positive that in the long-term, this is a good business model, which will be a win-win for the consumer and for us.

Avinash Nahata: Could you give the procurement value from the farmers in any sort of consumerables. We have done Rs. 400 Crore last year, and this quarter we have done Rs. 108 Crore.

Ajay Shriram: No, I will put it this way. I think there are two things. One is we are doing a regular commodity trading activity, which is part of the Hariyali organization, which is separate. Second is we buy anything from a farmer to sell through Hariyali. They are separate. So, I think on the trading, the numbers would be close to about 100 Crore of the annual revenues.

Moderator: Thank you very much sir. Next in line, we have Mr. Gaurav Garg from Enam Securities. Over to you sir.

Gaurav Garg: Firstly, if I can have the current sugar inventory level and at what cost we are carrying over.

J. K. Jain: These numbers are confidential. We as a policy have not been sharing this number. The cost was higher; therefore cost is higher vis-à-vis last year.

Gaurav Garg: Your view with regards to the overall sugarcane production, since there had been some concerns with regards to monsoon this year. So what is your sense on the overall production in UP and overall in India?

Ajit Shriram: The sugar production last year was 14.5 million tonnes, and out of that, UP was roughly 4.1 million tonnes. Now, basically, I think the monsoons have played a negative role to some extent; however, in the last 10 to 15 days, we have had some

good widespread showers all over UP, and this has created a positive impact in the farmers and also in the crop. So, it will be little early to say what would be the exact of impact in UP, but I think overall the output against 4.1 million tonnes, this year will be higher. I think all India between 16.5 and 17.5 million tonnes.

Gaurav Garg: Some view on the sugar price as well as the SAP price?

Ajit Shriram: The sugar realization currently on a spot basis is roughly Rs. 2,500 per quintal, and we do hope that this will firm further because we need to pay a higher cane price to the farmer, for the farmer to plant more cane and give him a positive message because cane price needs to be higher in comparison keeping in mind that inter-crop price priority is wheat and paddy. So we do hope for firmer sugar price, and the international prices have also firmed up if you know. Now, the international prices of raw sugar are roughly 18.5 cents per pound which was 15 cents a pound two months ago. So, there is a positive trend, and we do hope next year, year and a half, it remains positive.

Moderator: Thank you very much sir. Next in line, we have Mr. Vipul Arora from Aadhar Securities. Over to you sir.

Vipul Arora: Can you tell us the proportion of DSCL's own product source to the Hariyali Kisaan in proportion of percentage please?

Ajay Shriram: It is very small. Frankly speaking, Hariyali Kisaan Bazaar is a standalone business entity, and they have the distinct privilege of not buying any Shriram or DCM product if they find it does not suit their particular market. Turnover-wise, if you take last year, I think our own products would be possibly below 5%.

Vipul Arora: When do we expect this business to be profitable going forward?

Ajay Shriram: I think we expect in two to three years' time that Hariyali should be coming to a positive situation.

Vipul Arora: In terms of your strategy going forward, last year, we have seen the Company deploying cash in different businesses, and the capital employed has been stagnant at least for the two quarters. So do we see the strategy focused more on profitability going forward?

Ajay Shriram: Well, as we mentioned, that our capex which we have planned, and I just mentioned it little earlier right today that we have made our investments. We now want to redeploy

our funds to actually strengthen our balance sheet. So we are moving in that direction. Simultaneously, I think that any progressive group would do, we have our investment plans and we are doing studies on that to have at least the roadmap in place, and the capability to put in place orders on a quick basis, once we decide what to do. So I think those activities are still on, but we have not yet taken a decision on when exactly. But yes, once the financials are better considering on the market, we will definitely grow our businesses.

Vipul Arora: What would be the total debt as of date?

J. K. Jain: Rs. 1750 Crore as at June end.

Moderator: Thank you very much sir. Next in line, we have Mr. Vinay Pandit from IFCI Financial Services. Over to you sir.

Vinay Pandit: What is the sugar procurement cost since you are not disclosing, I just wanted to confirm whether the price at which you are buying sugarcane. Is it more than Rs. 14, which is the prevailing price.

Ajay Shriram: See, last year the SAP at which we bought the sugarcane was Rs. 140. I think on that we have approximately another 7% to 8%, which is the freight cost, etc., so about 10 rupees more. So, that is the price, so Rs. 14 rupees.

Vinay Pandit: I am looking at the state advised price going forward.

Ajay Shriram: Well, SAP in the coming year, we are already in court on this matter of the SAP having some rational and logic, let us wait and see what happens over there. We don't know what is going to happen, but our feeling is that the SAP or the price to the farmer needs to go up a little bit. Otherwise, we can't compete with the other crops, which are wheat and rice and others, and sugarcane acreage will keep coming down. So, unless this inter-crop price parity is on some rational basis to make sure that there is, fair return to the farmer on all these crops. In any crop where he gets a less return, he won't plant that. I think SAP will go up.

Vinay Pandit: In the current scenario like we are looking at 20 districts in UP have been declared under drought. Sugarcane yield is expected to go down going forward. How do you plan to manage your production and supply going forward?

Ajit Shriram: We have a very intensive cane development program, where we are working very closely with all our farmers, and over the last three months, I think we have worked

extremely closely and done regular irrigation on the crop. So, overall, our crop position is healthy and drought has not made much of an impact in our region per se. As of this morning now, I think 47 districts are supposed to drought hit in UP.

Vinay Pandit: So, you think supply is not going to be an issue going forward because there are going to be many players, with lesser quantity coming into play, raw sugar will be one of the factors in this business now.

Ajit Shriram: See, last year, the level of diversion, etc., was very high and the factories started late. So, this year, considering the fact that we should be starting on time and the sugar prices remaining firm, I think the quantity supplied to the mills will be better.

Vinay Pandit: Now that we will not be in a very high capex stage in HKB, we will be more of converting the existing outlets into profitable centers.

Ajay Shriram: Right.

Vinay Pandit: Looking at the scenario in Agri right now, primarily you have a lot of HKBs in Punjab, Haryana, UP, where cropping has started off late, farmer income had been marginally affected of course. How do you expect to grow the business towards Maharashtra, Karnataka, Tamil Nadu, Andhra, now that we have had good monsoons in this region.

Ajay Shriram: Well, I think this is a long-term plan which we put into place over the last couple of years, and you are right, in Punjab, Haryana, and parts of UP, the rain has been less which is going to affect the productivity and the income of the farmers, but simultaneously we have also in Uttaranchal, and Rajasthan. We have already moved in Madhya Pradesh, Andhra Pradesh, and Maharashtra, we already have our outlets, so we are fairly widespread that way. I think that in a way is a sort of a hedge, but the plans of growth will again be looked at in the next quarter or a quarter after that, depending on how the outlook looks like and how the business turns out. But you are right; the focus at the moment is to try to ensure that every outlet is profitable.

Moderator: Thank you very much sir. Next in line, we have Avinash Agarwal from Sundaram BNP Paribas. Over to you sir.

Avinash Agarwal: Do you plan to import any raw sugar next year?

Ajay Shriram: No, we are not looking to import new raw sugar at the moment because the international prices are also running very high, and one does not know what is the

domestic selling price policy for the sugar, as we were discussing a little earlier if the sugar prices continue at the level that they are now, the imports to us at least does not make business sense, so we are not looking at this as of now.

Avinash Agarwal: Also in case it becomes profitable, are your co-gen plants capable of running on coal also?

Ajay Shriram: Our boilers are capable, but then the entire policy for running on coal because we also during this season have co-gen power generation which we sell to the state government, so then the policy changes if we use coal vis-à-vis the co-gen's part of it which is bagasse or biomass. So we actually have not looked at running on coal right now, but that is something on our mind. We have to figure out government policy to see that it should not affect our entire power selling agreements with the state government, which could then have a long-term negative impact.

Avinash Agarwal: How is your bio-seed division done this quarter?

Rajiv Sinha: The first quarter is really not a very critical point because unless the kharif planting is over, you really can't assess the impact of how the business is done. So, I think once we complete the second quarter, we would have a much better idea, but one of our prime product range which is BT cotton seed has done as we had planned for. In the other areas, I think the impact of monsoon varying across different states would have a different impact especially on maize and millet and paddy, but I think we will have a much better fix by August on this area. Cotton has done as we have planned, and that is a big part of our portfolio.

Avinash Agarwal: How many packets of cotton do we sell approximately in a year?

Rajiv Sinha: Well, we really are in a very high growth mode right now, and almost planning to double what we have sold last year. So, this year, we should be a million plus.

Ajay Shriram: I just want to add at a macro level that for our Agri businesses, whether it is sugar, Hariyali or our bio-seed businesses as Rajiv was just mentioning, quarter-to-quarter is not a very correct indication because of the seasonal nature of these businesses, and their link to monsoons. Hariyali is also linked to many other issues of religious festivals, etc., so quarter-to-quarter is not necessarily a very representative picture.

Rajiv Sinha: Also, in case of bio-seeds, there is additional, complexity because of our operations in Vietnam, Philippines, and smaller operation in Thailand. So, I think as our chairman just said, it is very hard to take a quarter to quarter view on this. The seasons are very

different. So, generally, we will take a view after the first two quarters and then the next two quarters is what I want to say. But certainly in spite of the monsoon issues, we are positive in at least the big product segments like cotton, etc.

Avinash Agarwal: How much does India contribute to your full year sales in bio-seeds?

Rajiv Sinha: Roughly about 60% is from India, and the balance is from outside.

Avinash Agarwal: Which would be the other major crops apart from cotton in this segment?

Rajiv Sinha: The other biggest crop is maize or corn, in Vietnam, Philippines, and Thailand, and small quantities in Indonesia, it is primarily led by maize and corn, and also hybrid paddy is catching up, and third is millet, and in addition we have a complete line of hybrid vegetables, which has so far been somewhat low-key business. But I think this year onwards, since our own research pipeline has become very robust, we expect vegetable business to also start becoming and acquiring scale.

Moderator: Thank you very much sir. Next in line, we have Shreeshankar from Radar Securities. Over to you sir.

Shreeshankar: Can I have the breakup between your working capital and term loans sir?

J. K. Jain: Long term will be about Rs. 1150 Crore and working capital Rs. 600 Crore.

Shreeshankar: What is the average interest rate that you are paying over your term loans and working capital please?

J. K. Jain: Working capital last quarter was about 8%, but marginal is about 6% to 6.2%, and on long term about 7.5% to 8% on fully hedged basis because we have foreign currency loan also which we are hedged, so this includes the hedging cost as well.

Shreeshankar: This includes the hedging cost. You are saying working capital loans of Rs. 600 Crore drawn at 6% to 6.2%.

J. K. Jain: This is the marginal cost. The average for the quarter was high because April was high, but as of now, if you see July, it will be about 6% to 6.5%. These are all rupee loans.

Shreeshankar: And when you say that you are hedged, against what you have hedged it for, interest?

J. K. Jain: We are fully hedged on the currency side, and partially hedged on the interest side. Partially means we are about 45% to 50% of the exposure is hedged on interest side also.

Shreeshankar: Your rupee loans are costing you 6% to 6.2% for working capital.

Shreeshankar: Who have provided you these loans? Is it nationalized banks.

J. K. Jain: These are all banks actually. We are taking from nationalized, private, all the banks.

Shreeshankar: The rates seem to be way too low.

J. K. Jain: I am told that companies are borrowing at lower rate than that also.

Shreeshankar: Lower than 6 to 6.2%?

J. K. Jain: I mean, interest rates have softened, and if you have a good credit, then it is possible to borrow probably at a lower cost also. So, compared to the earlier, I mean, last two quarters, the interest rates have softened.

Ajay Shriram: I want to mention that I think this is something which is very proactively looked at in our Company, and there are people who are perpetually looking and scouting that can we swap, can we do something, and that we should make our cost of money lower, and lower and lower. That is an ongoing activity; I am just mentioning that it is something which is very proactively looked at.

Shreeshankar: What are your expectations of the kind of sugar production that will be there in your catchment area?

Ajay Shriram: I think as we mentioned a little earlier that we are still expecting some more rains to come, which will give us a better idea of what is the cane crop like. At the same time, we have done very intensive work on cane development with almost 400 cane developers working to try to ensure irrigation, fertilizer input, etc., is done correctly and on time. As I mentioned, about a year back we have also tied up with IFC Washington where they have utilized processes and systems for better agricultural productivity. We also have a joint partnership to work on looking at some area in all of four factories to see how we can have a better monitoring and better control on what the farmer is doing. So, with all this, we expect and hope that it is not going to be less in next year, but I think it is a little early to say this now. I think it is very

difficult to make a call because it is very difficult to predict what is going to happen because of the monsoons, but we expect it should be better than last year.

Shreeshankar: Last year was an unusual year when the yields dropped quite dramatically in most of the areas in UP.

Ajay Shriram: Yes.

Shreeshankar: Was there any specific reason for that kind of a drop because I have not seen that kind of drop in yields for over 10 years plus.

Ajay Shriram: I think the yield drop last year was there was due to lot of flooding in many areas, which has led to a drop in yields. That has affected everyone, and then the climatic conditions, the monsoon, it is a combination of many things, but yes it is unfortunate. But this year we don't expect that sort of a drop in yields hopefully, but I think the droughts have their impact, and in agriculture one sees that even one or two good showers at the right time can make a dramatic difference in terms of the health of the crop. That is also something which makes an impact.

Shreeshankar: What is the story in the PVC business? I think you said it was pretty bad out there in terms of realizations or demand?

Rajiv Sinha: I think as far as demand is concerned, I think demand in spite of the so-called downturn apprehension, it is reasonably robust, and India continues to be major net importer of PVC. If you see the quarter four of last year, the prices had come down quite dramatically. There, we have seen some improvement in the first quarter of this year, and we expect it to be around the same level as it is in this quarter, so there has been some improvement in the prices, and the delayed rains also meant that the off take for pipes went up actually. So demand-wise one does not see any real apprehension, but in our case the advantage we have through our swing capability is, as our chairman earlier said, we are trying to maximize the realization per unit of power generated, and with the current prices of PVC, we still find it is better to sell power than to make more PVC. So this is a constant equation that we will juggle around as we move forward.

Moderator: Thank you very much sir. Next in line, we have Ms. Falguni Thacker from Jet Age Securities. Over to you ma'am.

Falguni Thacker: On fertilizer the PBIT for your Company is about Rs. 7 Crore as against Rs. 10 Crore. So was there a drop in sales volume this quarter vis-à-vis same time last quarter?

Rajiv Sinha: Yes, there is a volume drop, but this is, as was explained earlier, because we were taking a shutdown after 3 years. So in the first quarter of this month, the production was relatively lower, and since we have a fixed quantum of permitted production, so we would come back to the level that we were last year.

Falguni Thacker: So how much was the drop if you can just share that figure?

Rajiv Sinha: I think roughly about 3,000 tonnes and 3% in percentage drop terms.

Falguni Thacker: But the profit drop at the PBIT level would not solely be on this account?

Rajiv Sinha: No. What happens is that since the fixed cost reimbursements are on a certain production basis, it does impact disproportionately, and secondly, some of our other energy savings which were being accounted at a much higher cost because we were 100% on naphtha, the impact of those energy saving costs in terms of the benefit to us came down because naphtha was equivalent of USD 20 per million BTU plus, whereas gas is just about USD 7 per million. So whatever you save, instead of it being a cost to you at USD 20, it gets costed at USD 7. So, the quantum of saving also goes down. Savings were also a bit lower just before the shutdown.

Falguni Thacker: I was just trying to understand that since it has been converted from naphtha to gas, so topline would have definitely come down but the bottom-line should have remained flat at least in absolute terms, assuming the volumes were intact.

Rajiv Sinha: No, it cannot, if you simply see the energy saving, the impact of the energy saving in terms of numbers, in terms of rupees will be certainly lower if you are operating on a lower cost feedstock compared to a higher cost feedstock. So, if you save one calorie of energy and if it you costs USD 7 versus USD 20 to 22, there would be an impact on the profitability.

Falguni Thacker: In terms of the fertilizer policy, whatever proposals have been given in the budget and off and on there are articles in the paper stating that nutrient based subsidy regime is likely to come soon. So would that bring down the demand for urea now that the other nutrients also the farmers would become indifferent to buying those? So are there any possibilities where by the urea volume can come off and the other complex fertilizers could go up?

Ajay Shriram: As of today, there is no clarity on what is going to be the policy, which will ultimately evolve. The existing policy which is in place; the NPS III is valid till

31st March, 2010. We are looking at the proposed nutrient based pricing policy also fairly actively.

Ajay Shriram:

There are many ifs and buts at the moment. Frankly, I think the demand by the farmers will be effected or not depending on the price of the product to them. Today, urea for instance is sold at Rs. 4,830 a tonne, and it has been this price since 2002. In case the price went up substantially, there will be an impact on the purchasing, but in case it does not then we expect the demand to continue growing as has done for the last 5 years, which is about 3% to 4% a year. So, I think the demand from the consumer depends a lot on the pricing.

Ultimately, that is the major driver, and I think the government is having discussions with industry and within themselves and with the finance ministry, etc., to understand that if you go on nutrient pricing, and if you leave the selling price free, what is the impact of that on the consumer, on the farmer, and will the fertilizer consumption go down, which ultimately can affect food security. So I think it is a very complicated question. It is something which is under discussion and debate.

The industry is saying that look; somehow the policy is such where it is not conducive to investment in growth. Otherwise, why it is in the last 15 years, not a single new fertilizer plant has come up in the country. Last year, we were paying USD 600 plus per tonne of urea to buy it from outside, and we bought 7 million tonnes. We paid USD 1,300 per tonnes of DAP, and we paid almost USD 650 per tonne of MOP, whereas we are paying it outside, but in India, there is no growth in the production capacity. So we are banking more and more on the foreign suppliers and paying them a higher price but not in India. So I think the policy guidelines have to come out very clearly.

At the crux, I will just say that industry feels that they have been hemp tied, and they have got into the norm of supplying subsidy through the industry to the farmer which actually is having a negative impact on the industry. Industry is not an attractive investment. In the last 10 years, many industries have grown rapidly in terms of India money, foreign money coming in for growth, but not in fertilizers. So, industry is saying look; set us free and do what you want, but the price of the farmer will determine the demand side.

Falguni Thacker:

What was the capital cost for conversions from naphtha to gas?

Ajay Shriram:

The total investment on this was about Rs. 38 to 40 Crore, which we invested about a year and a half back, but we were able to get gas fully only in the last quarter.

- Falguni Thacker: This would be reimbursed over what time period?
- Ajay Shriram: No. The government has not got any policy to reimburse this, as Mr. Rajiv Sinha just mentioned that because we are running with gas, the government has a policy that if there is an improvement in efficiencies that would be retained by the unit. So, that is what we are going to retain, and hopefully this would pay back depending on what is the price of gas.
- Falguni Thacker: Would the energy efficiency and cost savings be retained?
- Ajay Shriram: What has happened is because of the feedstock price going from around USD 20 to about USD 7, I think the situation is that our total cost of production, which was earlier running at over Rs. 20000 a tonnes, has now come to about Rs. 12,000 a tonne based on this price. But this price advantage on the differential between say our cost of production earlier and cost of production now is not retained by any unit. That is a new cost of production. The government will reimburse on that. What we will retain is the efficiencies we have gained by the change of feedstock.
- Falguni Thacker: Converting it from naphtha to gas, obviously you would term it as profitable for you.
- Ajay Shriram: In the long term, we do expect it to be, but I think it is also a policy shift. Government made a statement last year that they will give three years for all those who are not on gas to convert to gas or they would have to close down. So, in fact, we had a no-option situation, so we took a proactive decision to convert to gas. There are still many plants which are based on furnace oil or naphtha, which are not on gas and their cost of production is much higher, and secondly depending on the new policy, which is looking at having a parity with the import price, on that we are competitive. The third advantage is our working capital requirement comes down. So outstanding with the government comes down and hence it is a financial advantage.
- Falguni Thacker: What would be the subsidiary per tonne that you are receiving now after having converted to gas?
- Ajay Shriram: The difference is in the selling price, which is Rs. 4,830 on our cost of production which is approximately Rs. 12,000 to 13,000.
- Falguni Thacker: But there would be some mark-up into this also. It is not just that the cost is coming to you.

Ajay Shriram: There is a calculative basis. They look at the fixed cost, the return on capital, etc. Based on that formula, every industry, every fertilizer Company gets reimbursed.

Falguni Thacker: So would that 12% to 13% return on capital which was what is there, still intact?

Ajay Shriram: No. That is forgotten. Unfortunately, if the industry was getting 12% to 13%, we would have a lot of investments.

Falguni Thacker: That is why I just raised this question, so what kind of return are we getting on capital now?

J. K. Jain: The capital employed, last year we got about 15% or so. This will be PBIT to capital employed.

Falguni Thacker: And what is it on equity?

J. K. Jain: On equity also it should be last year roughly the same because interest costs were high last year.

Falguni Thacker: How much is your expectation on sugar? Can we expect raw sugar refining to happen in sugar season 2009-10 for India as a whole?

Ajit Shriram: I think in the sugar season 2008-2009, we will have roughly 2.5 to 3 million tonnes, and sugar season 2009-2010 should be in the same region, maybe up to 4 million tonnes. But that will depend very largely on what the government's policy on the domestic sugar price because the raw sugar prices currently are 18.5 cents and for January 2010 it is 19 cents, March 2010 is 19.5 cents. So, taking into account these high raw sugar prices, we will have to have a higher sugar price in India to allow feasible imports.

Falguni Thacker: On this levy sugar, since it is linked to SMP, so after this SMP hike from Rs. 81 to about Rs. 107; has that price gone up and if not eventually will that likely happen?

Ajit Shriram: As I mentioned earlier, the levy price has not been changed for the last 6 years. The SMP has been revised every year by either a rupee or a few paise. In spite of that, the levy price has been constant for the last 6 years. Now, this matter is in court, and I hope it happens soon.

Falguni Thacker: Even after revising the SMP, the matter is in court. But linking it to SMP is also subjudiced.

Ajay Shriram: Well, you are right that the industry has taken it up with the Agriculture ministry also that the levy price should be linked to some price, I mean as we mentioned the last 6 years, the SMP has been going up, but in spite of that, the levy price has not been changed. Logically speaking, what industry is saying is if you want to give a subsidy a month, you buy it from us at market price and give it at whatever price you want. Why are we bearing the brunt of this, especially when the industry is going under so much stress because the cane price and the market sugar price. So, that is something which is in discussion with the government, but as of now, frankly speaking, they have not revised the levy price, and our estimate is that on the total industry, the impact of a low levy price compared to market price is almost Rs. 2,000 Crore.

Falguni Thacker: What would be the PVC prices currently?

J. K. Jain: It is just under Rs. 50 a kg.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Dhruv Kumar from Ethos Advisors.

Dhruv Kumar: What are the products that you are able to sell in HKB and how is it going?

Ajay Shriram: We started the business initially with Agri products and Agri services because we felt that there is a gap between the farmer getting the products on time of the right quality, at the right time, at the right price, and also there was a gap in terms of being given advisory knowledge and know-how of how to actually put the inputs correctly on time, the right way, so that they can improve the productivity. That was the basic model when we started this, but thereafter we have seen that when the farmer used to come, his family used to come, they kept asking for more, and more and more things, so today it has really become a one-stop departmental store. It is like a business hub now, where along with Agri products and services, which is one of the main focus areas, we have also got into staple foods, food and groceries, FMCG products, consumer durables, apparels and lifestyle products. We have also got financial services where we have insurance and banking. We also provide warehousing where we have actually opened warehouses and the farmers can keep their produce, take their seeds and get a loan against that, so this warehouse seed system has come in. We have tied up with BPCL to put up petrol pumps, which they put up and we manage it, so it is pure for sure, so we have got petrol pumps also. So now we are providing a full range of whatever is required in rural India, not only to the farmer, but also to any rural customer who is into non-farming business activity.

- Dhruv Kumar: How have you actually scaled up there because when you are talking of warehousing and all, you also have NBFC and other people with parallel capacity right? So, how exactly you differentiated yourselves and gone about it?
- Ajay Shriram: Well, I think there is enough demand for that. I don't think that is a problem, and these are very locational issues. See, a farmer, he has got his produce next to us, he will find us most convenient for him, and we are cost competitive anyway, and because of our Hariyali, there is a relationship with us in any case. We also have a very large business of seeds. There are varieties of seeds which we are growing and selling to the farmers, part of the Agri output, so we have a long-term relationship. We do believe that the success of this model is linked on trust and that is the basic tenet on which we are operating.
- Dhruv Kumar: I noticed that your PBIT through the Hariyali Kisaan Bazaar is negative. You are saying it is in line with your business model as of right now and you have your different segmental revenues. Would it be possible for you to just give me a breakup across the various segments as to what is giving a profit or probably not on the call but separately?
- J. K. Jain: We will talk separately.
- Moderator: Thank you very much sir. Next in line, we have Divyesh Shah from Pragya Equities. Over to you sir.
- Divyesh Shah: How much time it takes for one store to break even according to your estimates?
- Ajay Shriram: See, it depends on many factors. It includes the location, the situation, what are the Agri products, the season at that time, but our studies over the last 4 – 5 years show that it takes between 2 to 3 years for any outlet to start coming to break even and profit. Two years ago, in March 2007, we had 70.
- Divyesh Shah: So, is it possible that all 70 stores are at breakeven, or can you tell me out of 300 how many have breakeven?
- Ajay Shriram: Well, out of 300, I would say we expect about 35% to 40% of them to be breakeven on profits. The balance which are as you rightly said, are the newer ones over the last 2 years. The growth has been rapid. I think they will take a little more time.
- Divyesh Shah: Do you have any capex plans for HKB especially?

- Ajay Shriram: We are in fact this year moving on to consolidate the business through improving efficiencies, better offerings, working closer with the farmer. We will put in centers if required, which strategically make business sense to actually complete cluster that we can cover a wider area within the given geography. But we do believe that ultimately we have to have it structured in the manner by which the logistics of supply and logistics of management are suitable as well as we want, if we get into a cluster, we want them to get Hariyali really to everyone there, so that Hariyali becomes a prime store for their purchasing.
- Divyesh Shah: What is your vision for Hariyali after 3 years? How many stores and what will be the topline of Hariyali Kisaan?
- Ajay Shriram: We actually have done studies on this, so all I can say it today that we are expecting after another 2 to 3 years, we should be in the range of about 500 outlets. But we look at this as a growing business activity and depending on how it moves, we will then take up the next line.
- Divyesh Shah: I read somewhere that we may find the plan to come out with IPO of Hariyali Kisaan.
- Ajay Shriram: Well, we have actually we have said this probably because that is our view that we want to make it into 100% subsidiary in the first phase and thereafter we might get private equity, that might happen but down the road.
- Moderator: Thank you very much sir. Next in line, we have Mr. Nadeem Parkar from Dolat Securities.
- Nadeem Parkar: I have a question related to the fertilizer subsidy policy that has come in. I guess that this subsidy policy has come in a major way because of the imbalance in the NPK consumption in India, so do you think that this would affect the demand for urea going ahead?
- Ajay Shriram: Well, I think this is the driver really for the new subsidy policy which is still under discussion. It has not been finalized. It could be the nutrient based policy. The main driver for this is that the subsidy bill last year, the government had to pay was in the range of about Rs. 115,000 to Rs. 120,000 Crore, as international prices of all products went sky high. That is the driver. The NPK ratio which they say is supposed to be 4:2:1 is already skewed, but I think this NPK ratio also is something which is determined a lot by the crop, by the soil congestion, by the rains, etc. So I think frankly that the pricing of urea will determine the consumption, and that is the policy

decision government yet has to take, how they want to price the various fertilizers to the farmer.

Today, urea is the prime nutrient. Urea is the cheapest priced product and it is at Rs. 4,830 compared to Rs. 8,000 to Rs. 9,000 for MAP and DOP. So, urea is a major consumption today.

Nadeem Parkar: Yes, but it has also been seen that the consumption has been skewed towards urea because it is cheap, that is why, so if this nutrient based subsidy comes in, should the demand for phosphorus and potash increase?

Rajiv Sinha: Should be, it should give a different ratio. It should give a more balanced ratio of NPK. So it depends on the pricing, and in any case, the fertilize consumption every year will go up. India today is about 96 kilogram per hectare of total fertilizer consumption, so I don't think there is any real fear of the demand for urea going down, but the growth of demand of all the three nutrients may be more balanced in a nutrient based system. In fact, government is very keenly looking to add capacity for urea manufacturing in the country in view of the projected demand, even if the nutrient based subsidy is put in place. So there is no doubt in my mind about the growth in demand of urea. It may be more balanced but it will be there.

Nadeem Parkar: Can you give me a figure on the deficiency of soil per hectare for urea or phosphorus in India?

Rajiv Sinha: You are asking a very difficult question because as our chairman just said this deficiency is varying dramatically, let say from Punjab to some parts of Bihar. So, I don't think there is any way to indicate to you what that deficiency would be in any given region, given crop. It is vastly differing. The consumption when I say average is 96 kilogram, it is varying between I think 30 kilograms to 300 kilograms per hectare.

Ajay Shriram: I think I will just add the point that Mr. Sinha is making that definitely a micro nutrient is a requirement, and that is something which everyone recognizes, and hopefully this pricing policy will give more rational pricing for micronutrients so the soil health will be maintained better, but just for information. I will add that the NPK ratio in Punjab, which is really considered the food basket is today at 30:10:1.

So, I think one has to do a little reconfiguring of what is the right ratio and for where, and this depends a lot again on the soil congestion and the crops, the monsoon, the irrigation, etc., etc.

Moderator: Thank you very much sir. At this moment, I would like to handover the floor to Ajay Shriram for final remarks. Over to you sir.

Ajay Shriram: I would like to thank everyone for coming on this conference call. I would like to mention that in case you have any further queries, please do not hesitate to get in touch with J. K. Jain. We would be happy to answer whatever questions there are. As we mentioned that we have had a good quarter. Our business model is sound. We are moving on a robust business model where our operations are running smoothly. In the next quarter, as I mentioned, that we have taken shutdowns of fertilizer and power. That would have some impact on the bottom-line, but overall, I think our business model is moving quite well. Thank you all once again for coming on this conference call. Goodbye.

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