



## **DCM Shriram Consolidated Limited**

### **Investors / Analysts Conference Call**

**5th February 2008, 4:15 PM IST**

#### *Presentation Session*

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**Moderator:**

Good evening ladies and gentlemen. I'm Mohana, moderator for this conference. Welcome to Q3FY08 conference call of DCM Shriram Consolidated Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press \* and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Ms. Sherna of Citigate.

**Citigate:**

Thank you Mohana. Good evening everyone and welcome to DCM Shriram Consolidated Limited Q3FY08 conference call. Today on this call, we have with us Mr. Ajay Shriram, Chairman and Senior Managing Director, Mr. Vikram Shriram, Vice Chairman and Managing Director, Mr. Rajiv Sinha, Deputy Managing Director, and Mr. J. K. Jain, Chief Financial Officer of the company. 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 a brief overview on the operations of the company during the period under review. Over to you Mr. Shriram. Thank you.

**Ajay Shriram:**

Thank you. Good afternoon ladies and gentlemen and a very warm welcome to all of you for this conference call. Let me begin by stating that we have been able to report a satisfactory set of numbers for Q3'08 after three challenging previous quarters. Your company recorded a PBT of Rs 22.22 crore before exceptional items in Q3'08 led by positive changes in the sugar operating environment, improved performance in cement, and the trading products division and lower interest expense. Meanwhile your company continues to make good operational progress across all businesses. Our expansion program at Bharuch for manufacture of 360 tonnes per day of chlor-alkali from the existing 200 tonnes

per day is progressing well. We are also setting up a 48 MW thermal based power plant in replacement of the existing 24 MW furnace oil based power plant at Bharuch. The expansion should be completed by Q1'09. Simultaneously the company has further decided to increase the capacity to 440 tonnes per day by Q4 financial year '09 after receipt of necessary government approvals. This will help increase our scale and reduce costs at our Bharuch operation. We are also expanding cogen power capacity in sugar from 70.5 MW to 94.5 MW, which will result in an exportable capacity of 51.5 MW. We expect to complete this expansion by November 2008.

Let me now take you through our value added businesses, which are showing immense opportunity and promise. Our Hariyali Kissan Bazar is a unique rural retailing model pioneered by us. We take great pleasure in informing you that Hariyali was selected recently at the Harvard Business School as a case study and was discussed at an international agri-business seminar, which was attended by over 200 experts and CEOs from all over the world. This conference was held in mid-January this year. These sort of recognitions further boosts our confidence in the potential of this business as a change agent and driver of growth. The total number of Hariyali outlets now stands at 128 with the addition of 23 new outlets during the quarter and 4 new outlets in January '08. We also expanded the footprint in the Southern region that is Andhra Pradesh, with the addition of 5 new outlets taking the total to 6. With an extensive presence across various locations, Hariyali currently caters to close to 2 million farming families. Our credit services launched in the last quarter, in association with HDFC Bank have met with an encouraging response and we plan to scale it up to offer full fledged banking services going forward. Our efforts to streamline the supply chain continue and Hariyali now has a distribution center in each of the 7 states where we are present. Our strong relationship with the farmer and the Hariyali brand reliability provide us an opportunity for growth in all segments of this business. Going forward, our plans for this business include rapid scale up of outlets to approximately 300 by financial year ending '09, expanding our geographical presence and increasing our portfolio of product offerings.

Coming to the Fenesta Building Systems business, we had an order booking of 207,000 windows as on 31<sup>st</sup> December 2007, which includes new order booking of approximately 23,000 windows. Having already achieved a high degree of product acceptance, DSCL now plans to add its focus to

the high opportunity in the retail segment. For this purpose, the company proposes to set up a pan India network of dealers and has initiated steps in this direction.

The fertilizer business started partial use of LNG during the quarter, with average LNG utilization reaching 47% in this quarter. This led to reduction of sales and costs by approximately 25 crore. The chemicals and plastics businesses of the company are going through margin pressures primarily due to cost increases of coal and other key raw materials. The selling price of these products is stable. In a positive move for the domestic industry, the Government of India has recently imposed anti-dumping duty of minimum Rs 1500 per ton on imports of PVC from regions other than Europe, South America, Africa, and Australia.

Sugar has seen positive changes in the operating environment with more balanced outlook towards demand and supply. The cane price and availability situation continue as a cause of concern. The planned increase in cogen capacity for the next season will lead to better performance from this business. With that, I would now like to invite Vikram to take you through the financial numbers of the company for Q3 financial year 2008, and nine month period financial year 2008. Vikram, over to you.

**Vikram Shriram:**

Thank you, and good evening ladies and gentlemen. I would once again like to thank all of few for joining us today on this conference call. I will run you through our numbers quickly for the quarter and nine months ended 31<sup>st</sup> December 2007. Let me first give you a brief idea about our Q3 numbers. Our revenues stood at Rs 662.86 crore with an EBITDA of Rs 66.88 crore for Q3 FY08 as compared to Rs 800.27 crore and Rs 68.65 crore respectively for Q3 FY07. Revenues under own products registered an increase of approximately 7% to Rs 584 crore in Q3 as compared to Rs 545 crore in the same period last year, driven primarily by higher volumes in sugar and top line growth in newer businesses of Hariyali Kissan Bazar and Fenesta Building Systems. However, overall revenues were down during the quarter as the company did not trade in imported DAP and MOP during the current year due to unclear government policy. The company recorded a PBT of Rs 22.22 crore in the quarter under review led by positive changes in sugar operating environment, which resulted in sugar reporting positive segment results of Rs 3.29 crore during the quarter after three quarters of negative results. Better results from the

cement business due to better margins, and higher volumes and increased profits from traded products, consequent to increased turnover of value-added agri inputs and discontinuation of trading in imported DAP and MOP. Lower interest expense by approximately 33% consequent to induction of networth funds from the sale of SBM Land Redevelopment Project in Q2 financial year '08 and lower subsidy outstanding helped boost profitability. The company registered an EPS of Rs 0.99 for Q3 financial year '08 before exceptional items and Rs 3.64 after exceptional items.

Moving on to our nine months financial year '08 numbers, revenue was at Rs 1,876.8 crore and PAT stood at Rs 659.7 crore for nine months ended December 2007 as compared to Rs 2,147 crore and Rs 60.63 crore respectively. The nine months ended December 2007 included exceptional items amounting to Rs 780.09 crore before tax arising on account of sale of the company's right title and interest in the SBM Land Redevelopment Project during August last year.

Let me now take you through our business-wise performance.

#### Chemicals.

Our chemical business revenue and PBIT were at Rs 86.3 crore and Rs 21.9 crore respectively during the quarter under review as compared to Rs 91.3 crore and Rs 34.5 crore in the comparable quarter last year. Performance of this business was subdued due to lower volumes and an increase in prices of key raw materials like furnace oil, salt, and coal. However, ECU realizations remained stable. With our expanded capacity at Bharuch expected to go on stream by Q1 financial year '09, and the second phase by Q4 financial year '09 along with the thermal power plant, our increased scale and lower power cost should enable us to become more cost competitive and improve overall margins for this business.

#### Plastics.

Revenues for Q3 FY08 was at Rs 90.6 crore and PBIT for Q3 was at Rs 13.3 crore as compared to Rs 88.4 crore and Rs 17.1 crore respectively in Q3'07. The performance of the plastics business was affected by lower volumes on account of a scheduled shutdown and cost push on account of rising raw material prices that is carbon material, iron, coal, etc. However, higher realizations helped to partly mitigate the adverse impact of the above mentioned factors.

#### Cement.

DSCL cement business reported a much improved performance on the back of increased volumes and firm realization. For Q3'08 revenues were at Rs 28.9 crore and PBIT was at Rs 7.6 crore as compared to Rs 23.4 crore and Rs 4.5 crore respectively for Q3FY07.

#### Fertilizers.

Our fertilizer business registered lower volumes and profitability for Q3FY08 with the revenue at Rs 180.5 crore and PBIT at Rs 9.9 crore respectively. The performance for the quarter and nine months under review is not strictly comparable as the company's urea plant was shut down for a period of 45 days during Q2FY07 for conversion of the plant to use LNG as a feedstock in place of naphtha and for plant scheduled maintenance.

#### Sugar.

The revenues from our sugar business were up 44% during the quarter under review at Rs 116.9 crore as compared to Rs 81.5 crore primarily due to an increase in volumes on account of expansion carried out last year. PBIT for the quarter was at Rs 3.3 crore as compared to Rs 1.5 crore in Q3FY07. An improvement in the operating environment consequent to the Allahabad High Court order of interim sugar cane price of Rs 110 per quintal as well as improvement in sugar prices contributed to the earnings growth.

#### Traded products.

In Q3FY08 revenues from traded products were at Rs 57.4 crore compared to Rs 253.9 crore in FY07. This was due to the discontinuation of imported bulk fertilizers from FY08 onwards. The company reported a significant improvement in profitability to Rs 3.98 crore in Q3FY08 as compared to a loss of Rs 5.2 crore in Q3FY07 on account of positive contribution from various value added products in its portfolio.

#### Others.

The business reported as "others" in the financial results includes results of value added businesses of polymer compounding, Hariyali Kissan Bazar and Fenesta Building Systems. Revenues from the other segments increased by 50% to Rs 123.3 crore during Q3FY08 compared to Rs 82.5 crore in Q3FY07. Revenues from Hariyali and Fenesta registered an increase of 69% and 45% respectively in the quarter under review.

We are confident of continuing to record good operating performance in the coming quarters with our commodity businesses and value added businesses progressing as per plan. The completion of projects under implementation in chemicals business and sugar cogen will further strengthen our overall operations next year. With that I end my remarks. Thank you for joining us on this conference call. We will now be glad to take any questions that you may have.

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*Question and Answer Session*

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**Moderator:**

Thank you sir. Ladies and Gentlemen we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing # key.

First question comes from Mr. Jinesh Gandhi of Motilal Oswal Securities.

**Jinesh Gandhi:**

Hi sir, my question is on your replacement of liquid fuel based power plant to solid coal based captive power plant, what kind of savings do you expect from that?

**Ajay Shriram:**

We expect that with this coal based power plant coming in, our direct power cost will be in the range of about Rs 2.25 paisa and our furnace oil power today is in the range of about Rs 4 – 4.5 depending on the furnace oil price. So with that there are substantial savings.

**Jinesh Gandhi:**

Right. But on the other side our fixed cost would also be paired on this captive power plant, coal based.

**Ajay Shriram:**

Yeah, but Rs 2.20 is all direct cost, including this it doesn't take into account the financing charges. That is the only thing that is extra, but otherwise it covers all other costs.

**Jinesh Gandhi:**

Okay, so on an absolute basis we expect savings of about around?

**Ajay Shriram:**

I told you, approximately Rs 2 a unit.

**Jinesh Gandhi:**

No, around Rs 25 to 30 crore from this?

**Ajay Shriram:**

Oh no. I think overall we should expect between Rs 40 to 45 crore.

**Jinesh Gandhi:**

After finance cost?

- J. K. Jain:** No, at EBITDA level.
- Jinesh Gandhi:** And after adjusting for finance cost it would be around Rs 20 odd crore.
- J. K. Jain:** If you are taking depreciation then that would be about Rs 10 crore or so. And interest is a corporate expense, so it doesn't get charged off to the segment.
- Jinesh Gandhi:** Okay right. And secondly about your Fenesta business, you mentioned you have a quite sizeable order book size. And normally what would be the billing rate for this kind of product, I am just trying to understand in terms of value, what sort of book size?
- Vikram Shriram:** What will be the value of our 2 lakh windows order?
- J. K. Jain:** Average you can take about 5,500 to 6000 rupees per window.
- Ajay Shriram:** So that will be around Rs 110 crore.
- Jinesh Gandhi:** Okay. And in terms of the aesthetic value of this product, is it comparable with competing materials like wood and stone based products, is it comparable?
- Ajay Shriram:** Well, our clear view is its far superior. One is, we use UPVC, but on top of that we do give a veneer of wood, so frankly from a distance you can't make out whether it's wood or plastic. But the other properties this product provides is far superior, for instance the sealing properties are very good. Due to which the ingress and outgress of heat and cold is much more contained. In fact one of the users over here, a restaurant used our product, and because of the superior insulation properties, capital cost on air-conditioning was lower by about 20%. Also the running cost is always low by 20%. That's a great saving. Also in terms of the sound coming in, the reduction in sound is almost by 35 decibels on usage in the casement type windows. So this is a far superior product and the life is also much more, you don't have the problem in monsoons of expansion and contraction of wood. Sealing is much superior. It's an internationally used product, in Europe and America; I think 80% of the market is this.
- Jinesh Gandhi:** And how is it based in terms of costing between, how it would be competitive vis-à-vis the products?

- Ajay Shriram:** Well, if I am comparing it with a good wooden window, for instance a teak window, it is very comparable. But if one takes a lower-priced window what one gets of, steel windows, or the lower-priced aluminium windows, then ours is more expensive, but compared to good quality aluminium window, it's about the same range. I think it's difficult to give a benchmark directly because you have single glazed windows, double glazed windows, depending on sizes, and variations are large.
- Jinesh Gandhi:** Let me put it another way. How it would be compared with the lowest cost competitors?
- Ajay Shriram:** No, we are a superior product with a fair price. I don't think, we are near the lowest cost products available in the market, and that has not been our objective either.
- Jinesh Gandhi:** Right, so effectively we are looking at a premium pricing range, we are not looking at low or rather mass product.
- Ajay Shriram:** No, we are not a mass product. That is not the product we are offering.
- Jinesh Gandhi:** Okay. And what would be your target revenues from this product over next couple of years, or three years or so?
- Ajay Shriram:** I think it should be in the range of between Rs 100 - 150 crore, in the next three years. We expect the business to grow, as I mentioned earlier, we are moving a lot into the retail segment now. And retail segment is smaller in terms of numbers, but it's much more specialized and we should get better revenues and realizations. So our focus is on that, and then we expect it to grow well.
- Jinesh Gandhi:** Okay, and lastly do we have any competition with similar products in the market for the same?
- Ajay Shriram:** We do. There's a company in South India, which is quite actively involved, as well as now many international companies are looking at coming in to India. And we are geared up for it. We know that today frankly you get into any business, which is of an international level, that competition from all over the world will come in. But I think we have an edge, because we had got a spread pan India, we have got our own operations right from extrusion to fabrication.
- Jinesh Gandhi:** And are we in talks with any large builders for mass orders?

- Ajay Shriram:** Oh yes. We have in fact got I think, I don't know the numbers, but we have got large orders from many, many builders all over India, including we have got one near Bangalore for 23 different towers of a particular colony, which I think the number of windows was almost 75,000 windows, for one builder. And so we are working from five windows to 75,000 windows.
- Jinesh Gandhi:** And what would be normal EBITDA margins on this product?
- Ajay Shriram:** I think it varies a lot, based on the type of windows we are looking at, sort of applications, the timeframe of implementation. You know, what happens is, the builders, one gets an order now, and they say you want to put it up six months later, but that six months becomes nine months or 10 months, so the whole cycle gets a little pushed back. But down the road, once it grows and gets established, and the volumes are satisfactory, we expect this to grow as a good business leg for the company.
- Jinesh Gandhi:** Okay, but any feel on margins, which you own on this product, EBITDA margins?
- Ajay Shriram:** EBITDA margins are satisfactory, it has been moving well, but its little early to comment just now, because there's lot of promotional expenditure going on. But this is a good business.
- Jinesh Gandhi:** Okay, what would be your current gross debt?
- Ajay Shriram:** Pardon me?
- Jinesh Gandhi:** Debt which you have on your books?
- J. K. Jain:** About Rs 1,000 crore.
- Jinesh Gandhi:** Okay, and any cash?
- Ajay Shriram:** No, we don't keep cash.
- Jinesh Gandhi:** Cash or liquidity?
- J. K. Jain:** This is net.
- Jinesh Gandhi:** Okay, Rs 1000 crore is net.
- Jinesh Gandhi:** Okay thanks a lot for taking my questions.
- Ajay Shriram:** Thanks a lot.

- Moderator:** Next question comes from Mr. Ashwini Agarwal of Pinc Research.
- Sachin Kasera:** Good afternoon sir, this is Sachin here. Just a few questions. First is regarding your chemical division, could you explain the reason for the 10% decline in volumes for the quarter?
- Ajay Shriram:** Well, you see, this year we had a shutdown in the quarter also and considering the market situation and supply demand, we took a view that it's better to reduce our production slightly and maintain realizations, so we had this reduction, which happened in this quarter.
- Sachin Kasera:** The decline of 8.95% approximately 4,000 tons, was it because of the maintenance shutdown or is it because of the demand-supply in the market, so we decided to reduce the production?
- Ajay Shriram:** It is both actually. It is also the plant shutdown to a degree and it's also the market to a degree. We didn't want to flood the market. We felt its better to reduce production marginally and continue on maintained prices rather than take a view of producing more and aggressively pushing the market.
- Sachin Kasera:** So what would be the scenario in March quarter in FY09, do we expect to continue to operate at lower capacity utilization, or I would say at the same level as in December quarter?
- Ajay Shriram:** No, I think this was in the last quarter, we are already seeing that now the production has inched up somewhat. And of course from next year onwards, from the Q1 of '09, our expansion will come into place. So from Q2 onwards, we will be running on expanded capacity.
- Sachin Kasera:** I am talking sir, in terms of the percentage utilization of capacity, rather than absolute.
- Ajay Shriram:** I think percentage utilization will be at 90% plus.
- Sachin Kasera:** Okay, and secondly sir, regarding this increase in, you mentioned as the input cost of furnace oil, coal, and salt, has gone up, could you give us a brief explanation what was the impact on the profit of chemical division, because of all these three factors during the quarter?

- J. K. Jain:** Sachin, those individually I think we can follow up and give it to you separately, the overall effect is that since prices have been same, these costs have led to that reduction in margin, if you see prices, they are at the same level as last year. Margin reduction is primarily due to the cost, and which is largely furnace oil and coal.
- Sachin Kasera:** Okay. And sir regarding the power plant that is coming up, 48 MW, what are the terms for coal linkages, we have got, both volume and price?
- Ajay Shriram:** No, over here, frankly we will be importing coal for this, because in Bharuch, its right next to the port, so we are looking at various alternatives and we find that is economical way of running this. So our plan is to import coal, so our people are already on it, or trying to tie up for supplier on a long term basis, and there's no problem on that. We will definitely get enough coal, that's not an issue.
- Sachin Kasera:** Sir, but what about pricing, because you mentioned Rs 2.30 paisa is the cost, so means what is the approximate type of cost we are looking, because coal cost are almost sort of doubled in the last one year.
- Ajay Shriram:** This cost about Rs 2.30 paisa on a total cost basis, excluding financials is estimating the coal price as it was in the last couple of months.
- Sachin Kasera:** Okay. So almost close to the current prices you would say.
- Ajay Shriram:** Yeah, absolutely.
- J. K. Jain:** And Sachin, like coal has gone up, the furnace oil has gone up faster, so what we are working on is the differential right now.
- Sachin Kasera:** Fair enough. But I was just trying to understand this Rs 2, and I agree with that, but this Rs 2.30 is at the current coal price or it is at the original project cost prices.
- Ajay Shriram:** No, original was eight to 10 months back, and that would not be realistic. This is today's.
- Sachin Kasera:** And sir, what is your progress on the lignite mine, I think last time in the con call we mentioned that we have got some lignite mines.
- Ajay Shriram:** We are working on that. We have got a team in place already. The land acquisition is already started. And

environment clearance is under progress, the mining plan is being worked out. It's progressing well. It's progressing as per schedule. And we will get the benefit of this down the road.

**Sachin Kasera:** But can we expect any production FY09 from this sir?

**Ajay Shriram:** No, it won't happen so fast.

**Sachin Kasera:** So only FY10, you can expect from this.

**Ajay Shriram:** Yes, it should happen by then.

**Sachin Kasera:** And sir, any idea in terms of the type of CAPEX we will have to incur for this?

**Ajay Shriram:** It is still being estimated what the capital expenditure is, because we have got experts on this working out exactly what is the over burden, what is the actual extent of the removal, then the cost of land also is an issue, which is open ended. So it will not be right we feel to give the figure, because it's too open ended, I must be honest.

**Sachin Kasera:** Surely.

**Ajay Shriram:** We discussed it the same way in our board also, once you get a more realistic picture, we will take it up to the board. Principally we have decided we would go ahead, because that's securing a source of raw material.

**Sachin Kasera:** Yes. And sir what is current state regarding the fuel linkages for the Kota power plant? How is it standing there?

**Rajiv Sinha:** We have full linkages for the Kota plant to the extent they give linkages for fertilizer, captive power plants, and for the balance we procure from the market, so almost 80% or so is already linked.

**Sachin Kasera:** But have you seen price increases there, or are you foreseeing any price increase there?

**Rajiv Sinha:** Well, in December, Coal India itself increased the basic prices by 10% and added things like transportation charges etc, and prior to that, railways had upgraded the carrying charges. So overall we have already seen more than 15% - 16% increase in the prices of coal between November - December.

- Sachin Kasera:** So maybe the full effect will be felt in the March quarter, so maybe this quarter also we experience some input pressure because of the higher prices.
- Rajiv Sinha:** We will experience impact in the last quarter of this year, and then of course full impact next year.
- Sachin Kasera:** Okay. And sir what is the update regarding the two power plants, I think you are looking. One was the lignite based and second was the hydel power.
- Ajay Shriram:** Regarding the hydel power plant, that actually is moving well with the Himachal Pradesh State Government, which is for 108 MW. In fact we are in the process of signing, as you may be aware, we have given the 50% advance on our premium we had quoted, based on which we have won the model. We have got the allotment letter. Second phase of it, our PIA, we should be signing in the next 10 day' time. And then we are in discussion with the state, because there's been a change of government in Himachal. So after that, the new bureaucracy and all have fallen into place, people are in negotiation, and discussions with them to lay down the basic areas where the state has to play a proactive role to ensure that the progress of this project moves as per plan. And we are happy to state that the state government is positive, they have had meetings in fact yesterday and day before yesterday. Our CEO for this business is in Shimla and he had meetings with them. And its moving well, though it is a long term project, hydel takes time, this is near Rohtang Pass, so it is something where it's little more difficult to access. But based on all indications, with the state, and the experts who are helping us, and our own people, that is a good direction to get into and once it starts, it's a good business.
- Sachin Kasera:** And sir, what about that 250 MW lignite power plant?
- Ajay Shriram:** Lignite, where was the lignite power plant, I cannot recollect.
- J. K. Jain:** We didn't talk about 250 MW lignite power plants.
- Ajay Shriram:** I don't think we have looked at any lignite power plant.
- Sachin Kasera:** No, if I get it right, you mentioned regarding some 250 MW power plant in Rajasthan, last con call you mentioned.
- Ajay Shriram:** Oh, see with the existing lignite place we have, in that we were debating to put up a 50 MW or move the lignite to Kota. That was the debate we were having and that is still

something we will take a view once we get into a closer time of getting the lignite available, in terms of what is the best economics for the company, so we will take that up then. It is not for 250 in any case, may be 50, 75 MWs, which will be wheeled directly to Kota, it won't be for sale anywhere.

**Sachin Kasera:** Okay, and sir are we bidding for anymore hydel power plants, say either in Himachal or any of those North East or the Northern states?

**Ajay Shriram:** Yeah, our plan is there, we would like to. In Himachal I believe they are going to open up some more bidding in the next couple of months, so our people are keeping track of that and yes, we will be bidding for more.

**Sachin Kasera:** But, any sort of plans that we have for the, if you could share some sort of, what is the type of direction and scale we are looking for the hydel business, next four to five years?

**Ajay Shriram:** Our thinking is that, yes, we do want to grow in the hydel business, we do want to put up power plants which make economic sense and we will bid for this. We have got in touch with international parties and many of them are keen to work with us on this matter. Power is something which is in great shortfall and is projected to be that way for many years to come. So, we feel with our technical expertise and knowledge on this, it will be a good business growth for us, so we are looking at this actively. It is difficult to give a figure because a lot of it depends on the bidding process and what's the outcome of that. But, yes, we do want to look at this as a growth area.

**Sachin Kasera:** Okay, thanks a lot, if in case I have some further question I will come back.

**Ajay Shriram:** Please do, thank you.

**Moderator:** Next question comes from Mr. Gaurav Garg of Enam Securities.

**Gaurav Garg:** Congratulations sirs on a good set of numbers.

**Ajay Shriram:** Thank you.

**Gaurav Garg:** Firstly, I would like to know your view on the sugar sector, where do you see the realizations and the market heading?

**Ajay Shriram:**

Well, in the last four, five months it is good to see that the market is turning a little positive vis-à-vis the sugar price, considering what it was in the last two years with the cane price, and sugar price, having no parity. One can't have a business of the sugarcane price being higher than the real selling price of sugar, but fortunately that's moving in the right direction. I think also the problem of high sugarcane price has led to lack of payment to farmers, which in a way is not good, because that ultimately affects the farmer's economics, the farmer's viability and they don't plant enough cane. But, the situation now which is there, I think, next year may not be in the situation of really having a satisfactory sugar price the way we would like it, but the year after, we do expect that the price should be more reasonable and sugarcane price also this year as you may be aware, the court has indicated the price of Rs 110 as against Rs 125 earlier. So, if this price maintains then I think couple of years down the road, definitely it will be a turn around and the business should do much better.

**Gaurav Garg:**

Okay, alright sir and recently we got shifted from naphtha to LNG. Sir, I would like to know if there are any cost savings in this?

**Ajay Shriram:**

Well, not directly in cost, but indirectly, yes. What happens is because the cost of LNG is much lower than naphtha, our working capital requirement comes down, consequently the reimbursement the government has to do to us, because they are selling fertilizer at a subsidized price to the farmer, so the reimbursement they have to do to us comes down and unfortunately the situation is, where there is a large outstanding of what the government has to pay the industry, so now with LNG, the outstanding will come down, so we will get the interest benefit there. It's a cleaner fuel and we are the first plant in the country actually to have changed over from naphtha to LNG.

**Gaurav Garg:**

Alright, how about the linkage for the LNG, are we sourcing it from GAIL or...

**Rajiv Sinha:**

After we have come into this conversion, I think sourcing LNG is a major problem and as of now no supplier is willing to get into any long term contracts, so what we have been trying is to buy on a spot basis from wherever it is available. So far, the bulk of our supplies have come through Bharat Petroleum. Of course the pipeline is owned and operated by GAIL, so there is a separate transportation agreement with GAIL, but GAIL also, whenever they will have any quantity available, we will try to take it. As of now, as Mr. Shriram mentioned, only 47%

of the naphtha we were able to substitute by LNG in the last quarter. So, this is an ongoing battle and the Department of Fertilizer has been very cooperative and very aggressive in trying to help people like us get LNG supplies. But, I think for the next few months there is still uncertainty and hopefully sometime later half of 2008 we will start seeing more regular supplies.

**Gaurav Garg:**

Alright and does the company hold any more land now, after selling the one in Delhi?

**Ajay Shriram:**

Well we have, about 10 years ago, the company looked at starting prawn farming projects in South India where in Pondicherry district, in Karaikal area, its actually, I think about 75% of the land is in Karaikal and about 25% is in Tamil Nadu. We have about 380 acres of land over there. So, that's a land bank which is available with us and we are exploring what's the best way to get value out of it.

**Gaurav Garg:**

Okay, other than this any other real estate plans or foray?

**Vikram Shriram:**

Well, our plans are on our land, frankly, whatever we have is available for all our factories and for their expansion plans, whether it is each sugar factory is on a 150 acres or Bharuch is on 100 acres or Kota is on 800 acres, but then those are all industrial lands being used for running our industries.

**Gaurav Garg:**

Okay, alright, thanks a lot sir.

**Ajay Shriram:**

Thank you.

**Moderator:**

Next question comes from Mr. Avinash Nahata of IL&FS Investsmart.

**Avinash Nahata:**

Good afternoon sir.

**Ajay Shriram:**

Good afternoon.

**Avinash Nahata:**

I have a few questions; I will take one by one. What are the current sugar realizations?

**J. K. Jain:**

Right now, we are still selling the old seasons sugar, so that we are selling over Rs 1,400 a quintal.

**Avinash Nahata:**

Okay, secondly in our plastics business also there was a volume de growth.

- Rajiv Sinha:** That was primarily because we had a shut down of the plastic plant and some of the power maintenance shut downs, that was a scheduled shutdown.
- Avinash Nahata:** That was purely shut down.
- Rajiv Sinha:** Yeah, so that will not happen in this quarter.
- Avinash Nahata:** Okay, in terms of growth you have mentioned percentage growth both for HKB and, this Hariyali Kissan Bazar and Fenesta, is it possible for you to give value terms?
- Ajay Shriram:** I think value terms is a little difficult, right now because we are still putting the whole thing together, but due course of time whenever they grow into a sizeable thing and we hope that happens, we are working on growing the businesses rapidly and once that happens automatically it will come out.
- Avinash Nahata:** Okay, fine.
- Ajay Shriram:** Thank you.
- Moderator:** Next question comes from Mr. Nitin Gupta of Karma Capitals.
- Nitin Gupta:** Hi, good evening sir, I just wanted some comments from Hariyali, how has been your experience on the expansion phase and what kind of arrangement do you currently have with HDFC bank, what kind of products are you selling?
- Ajay Shriram:** Well, in our Hariyali business as we mentioned, the growth has been fairly rapid, we have really two models, one is what we call centers, which is based on between two to four acres of land and the other is stores where we rent space within villages and set up, they are between 3,000 to 5,000 sq. ft. and the center are normally between 8,000 to 12,000 sq. ft., and these are the two models which we are operating on. We are growing both of them rapidly, in fact, in terms of built up area or selling space; today Hariyali has crossed over a million sq. ft. So, that's grown fairly rapidly. We started off really providing products and services for the farmer, it started with that model where in every store or center we have agronomists who are based there, who are available not only to suggest the right product and give the right product, but also give the right advisory services on how to maintain the crop over a longer period of time. These agronomists, part of their job is to tour the villages and meet the farmers on their fields to help them improve the profitability, the objective is very

clear, Hariyali is to improve the farmer's crops and the basic tenets you build this on is with building up trust, providing the farmer and his family with dignity and providing a fair choice. So, it is not only our products, it is products from, who ever is the best supplier in the country or where ever there is a need or a demand of a particular supplier, that's the base we have set up the Hariyali model. Pursuant to the farmer coming in, the families started coming in and they wanted to find out more about getting things, which are non-farming. So, in the last couple of years, we have expanded it quite rapidly and now we provide FMCG products, consumer durables, staple foods, furniture, apparel, we started apparel as a latest addition about four, five months ago. Appliances are there, in fact, telephones, cell phones are selling, dish antennas are selling, it has become like a one stop departmental store for rural India. Initially it was farmer and the family, but you maybe knowing that 40% of rural India is non-farming. Those people also have now started coming to this store because they are finding that there are lot of products these days which is available to them, of the right quality, at a fair price, so, this is growing very rapidly. We have also tied up with BPCL to put up fuel pumps and we have today approximately about 15 fuel pumps, , where we are assuring quality, assuring quantity, assuring pure for sure, BPCL has put up the stuff, but our people run it, so the guarantee is ours, ensuring quality. So, actually we are continuously providing more and more products and services for the farming community. A large chunk is the financial services, where we initially had an agreement with ICICI Bank, which is still carrying on. We have got insurance running with ICICI Prudential and ICICI Lombard, they are both continuing also on the life and general side and HDFC is the latest addition we got into, where we want them also to come and to provide all banking services to the farmer and his family or to rural customers through our Hariyali outlets, because as you may be aware our Hariyali outlets are 100% in villages. It is not even in tier 3 cities, it is actual villages. So, we have a catchment area of something like 25 - 30 km and our customers come in from that. So, it's like a one stop shop to provide products and services with assured quality at a fair price and the model is moving well.

**Nitin Gupta:**

Okay, so from HDFC you are basically taking fees, right?

**J. K. Jain:**

Right now it is working on a referral model for consumer loans, but very soon we will have our own section 25-O company and we will move to correspondent banking then

we will start giving them, besides loans, the savings bank account facility as well.

**Nitin Gupta:**

Okay, so basically that will be under DCM Shriram?

**J. K. Jain:**

Under a section 25(O) company of DCM Shriram Consolidated.

**Nitin Gupta:**

Okay, so all the loans, etc, will be going through your books?

**J. K. Jain:**

Yes.

**Nitin Gupta:**

Okay, fine.

**J. K. Jain:**

But without taking the credit risk, we are not taking the credit risk of that.

**Nitin Gupta:**

Okay, but it will be on your books, right?

**J. K. Jain:**

It will not be on our books, we will be a correspondent bank of HDFC Bank.

**Nitin Gupta:**

Okay, I got it.

**Rajiv Sinha:**

And the entire credit risk is of the bank itself.

**Nitin Gupta:**

Okay, fine, thank you and how much amount are you putting in for setting one Hariyali center as such and store, if you can give me a ballpark number?

**Ajay Shriram:**

Yeah, sure, these centers, which include land, depending on the location, depending on the price of land, because that's a large chunk of the investment, but there it ranges between say Rs 1.5 – 3.5 crore and the stores which we are putting up, which are basically a rented model, there we are investing between Rs 20 - 50 lakhs depending on the size and the location and the extent of work required to bring it into our specs of what we want.

**Nitin Gupta:**

So, out of this one million sq. ft. selling space which you have, how much is owned by DCM and how much is rented?

**Ajay Shriram:**

Well, today frankly if you take a land bank, our land bank in Hariyali business is more than 200 acres, which we have for all our centers.

**J. K. Jain:**

In terms of area it will be about 65%.

- Ajay Shriram:** Okay, above 65% will be centers and the balance will be stores.
- Nitin Gupta:** Okay, fine and how has been your experience with Andhra Pradesh opening of Hariyali centers over there?
- Ajay Shriram:** Good, very good response, we find the farmers are very interested; the farmers have a lot of curiosity. I think initially there is a lot of curiosity on the store itself, to understand what do they do, but we are finding the repeat foot falls are very positive and the farmer and the families are now coming in and buying products and services. So, it's a very positive response. Agriculturally all the areas which we looked at, there is lot of agricultural activity and the farmers are interested. We are seeing that frankly and to be honest everywhere, that if the farmer is able to get a source of the right product and advisory services, then they feel, that look with that little extra effort or with that little extra investment, they can get a better margin on that one acre of land. They are keen on it, frankly every farmer is a businessman, his objective is to make the maximum out of his assets and they are very interested, I mean, we are getting a very positive response.
- Nitin Gupta:** And you are planning to open 300 Hariyali centers by March 2009, right?
- Ajay Shriram:** Yeah.
- Nitin Gupta:** Okay and one more question to Mr. Jain regarding...
- Ajay Shriram:** Sorry, 300 Hariyali outlets, which will be centers and stores.
- Nitin Gupta:** Okay, including both and my question to Mr. Jain is that, what's the net debt on your books?
- J. K. Jain:** I just mentioned over Rs 1,000 crore or so.
- Nitin Gupta:** Okay, this includes the exceptional income, which got generated from the land?
- J. K. Jain:** Yes, it is after utilizing that exceptional income to reduce the debt.
- Nitin Gupta:** Okay and what would be the interest rate on the debt, if you can give?
- J. K. Jain:** Average interest rate will be about 8.5 - 9%.

- Nitin Gupta:** Okay and if you could share the CAPEX for this financial year and next financial year, which you have planned?
- J. K. Jain:** See, right now we have only two projects as Mr. Shriram mentioned, one is the Bharuch expansion, where we are doing chlor-alkali as well as power expansion, which will get commissioned largely in Q1FY09 and the other one is the sugar cogen, where we are increasing the capacity. The total expenditure on that put together is about Rs 375 crore.
- Nitin Gupta:** Okay, fine.
- Moderator:** Next is a followup question from Mr. Ashwini Agarwal of Pinc Research.
- Nirav Shah:** Sir, Nirav here, sir, just a few queries on the sugar business, the first is our average realization is at around Rs 13 per kg for December quarter, whereas if we see other companies realization, they are averaging around Rs 13.6 to 14 odd rupees, so what are the reasons why the realizations are on a lower side?
- J. K. Jain:** You mean vis-à-vis other people.
- Nirav Shah:** In UP, yeah.
- J. K. Jain:** No, to the best of my knowledge the realization varies from market to market. People who sell largely in Delhi market realize higher.
- Nirav Shah:** Okay, so what are the kind of markets we are catering to, are we basically central UP or...
- J. K. Jain:** Yeah, we are a central UP factory; therefore most of our sale happens in Kanpur, Lucknow and Calcutta, right.
- Nirav Shah:** Okay sir.
- Sachin Kasera:** No, sir, something I have, sir, you have to compare Triveni and Balrampur, their realizations for the quarter in sugar are much better than the reported by us.
- J. K. Jain:** Sachin, we will have to really see what are the markets they are serving, then only it would be comparable, on a gross basis it is difficult.
- Ajay Shriram:** See, I will just add that Triveni is basically in west UP, their businesses are Khatauli, Deoband, in that area and Balrampur is in east UP, where they are closer to the

Calcutta market, so I know that may be an issue, but we will get it checked out, we are not aware, but anyhow it's an interesting point you have raised, we will also find that out and get a little clarity ourselves.

**Nirav Shah:** Okay and we mentioned earlier that sugar sales for the Jan, Feb, March quarter will be from the previous seasons inventory, so sir, can you just share some light on what kind of sugar production was there during the quarter and opening and closing inventories?

**J. K. Jain:** For the quarter?

**Nirav Shah:** Yes.

**J. K. Jain:** See, we started the quarter with an inventory of about 16 lakh bags, which was all relating to 2006-07 and we still had on 31<sup>st</sup> December about 7.5 lakh bags in inventory relating to that previous year and we have produced about 8 lakh bags during December, which is '07-'08 season, which we haven't sold any because we are still selling 2006-07 season's sugar.

**Nirav Shah:** Okay and sir what is the target crushing for this season?

**Ajay Shriram:** This season we expect the crushing to be about the same as last year, may be marginally higher, which should be in the range of about 375 to 400 lakh quintals, in total, between all the four factories.

**Nirav Shah:** Yes, and do we foresee any availability issues in our command areas?

**Ajay Shriram:** It will happen, I think it is happening all over India, specially in UP, because of the cane payment problems over the last year and the delayed starting of the factories in UP has had an impact also in terms of the planting of cane, so that has been a bit of a problem. I think everyone is going to face those problems.

**Nirav Shah:** Okay, so we can expect some 5% to 10% lower crushing in the '08?

**Ajay Shriram:** Next season is very difficult to say, I mean, I think, may be we are one of the few companies, we have got almost 350 cane development officers in our cane department and they are all out in the field trying to convince the farmers to plant cane or to manage the cane better to improve the yield per acre. So, it is difficult to give an estimate for next

year, but we are trying our best to make sure that it goes up.

**Nirav Shah:**

Okay, and sir, just one more question, sir, what is the opening inventory valued at, as on September 30<sup>th</sup> what was the inventory?

**J. K. Jain:**

The free sale sugar was valued at Rs 12.50.

**Nirav Shah:**

Okay and the closing inventory is valued at, Rs 14?

**J. K. Jain:**

That's a little sensitive information, no.

**Nirav Shah:**

Okay, sir.

**Sachin Kasera:**

Sir, regarding this cane thing, now that next season we will be expanding our cogen capacity, so would we not foresee again problems in terms of availability of bagasse during this season as well as the next season and how many days are we looking to operate the cogen plant?

**Ajay Shriram:**

Well, actually in our case, we don't foresee that because we got four factories and the cogen we are going to then have bagasse available from all four factories for the cogen, so this is going to actually optimize and what's happening is, these two new 12 MW each we are putting up, they are actually coming up in each of the new factories. So, there it is moving through the cogen route, where actually its virtually free power, which is being made available because of the reduction in steam pressure which is done from the time we generate the steam to the pressure you require it in the plant. So, we are not foreseeing any problem, because basically it's all internal. Our projects are based on no purchase of bagasse; it's all our own bagasse.

**Sachin Kasera:**

Yes, but even our own bagasse, if you see that 400 lakh quintals that we are talking to crush, would be substantially underutilizing the capacity that we have of 35,000 tonnes?

**Ajay Shriram:**

Well, I agree with you that is an industry problem which is there everywhere. But at least on the bagasse price we expect what we are also doing just to ensure the bagasse is kept better, we are building sheds for storing bagasse in a more scientific way rather than leaving it out in the open. So, that will also help us in preserving the bagasse and ultimately I think it is an efficiency of the system which is going to pay back.

- Sachin Kasera:** Okay sir, but if you could give some idea in terms of the number of days you expect the cogen plants to operate this year?
- Vikram Shriram:** The new plants are expected to operate for the length of the season next year, We expect the season to be 160 to 170 days next year and as far as the plant is concerned, that is expected to operate around 300 days of the year.
- Sachin Kasera:** And would this improve next season, next year can we expect all of the plants to operate 300 days?
- Vikram Shriram:** New plants are designed to operate only during the seasons, based on the bagasse balance, because we have balanced the bagasse between all the plants, so that we don't have to rely on purchased bagasse.
- J. K. Jain:** Sachin, the new plants will become operational only next season, they are not operational in this season?
- Sachin Kasera:** And sir, what is the progress on carbon credit for this cogen plant?
- Ajay Shriram:** No, again for this cogen power generation we are entitled to carbon credit that process is on for the evaluation and for the approval process, for the new ones and the new plant as I have mentioned earlier that we expect to commission both the new cogen plants by November 2008. So, by then we should get our approvals of carbon credit and get the benefit of that.
- J. K. Jain:** For the existing 27.5 MW we have already all the approvals, we are entitled to carbon credit on that.
- Nirav Shah:** So, have we booked any income in the first nine months, sir, from carbon credit?
- J. K. Jain:** Yes, on these particular things we have booked the entire carbon credit income that was due to us.
- Nirav Shah:** In the first nine months?
- J. K. Jain:** Yeah.
- Nirav Shah:** Okay, and sir any plans of adding distilleries in there?
- Ajay Shriram:** We actually have debated that, but we thought that considering the way it is going today and the demand for molasses and what we foresee, and the position of sugar crushing and molasses availability over the next few years

and with the investments we have made in sugar and cogen, we find it more prudent to actually push back the decision on our distillery by may be a year or two and at the moment lets move more for cogen and we find the returns are better on that.

**Sachin Kasera:**

Okay, but can the capacity support anymore cogen, assuming that after a year or so the division starts showing profit and you reinvest that, so can we look at further expansion or this is the maximum that you can take

**Ajay Shriram:**

I would say, frankly based on our own bagasse, we will reach the limit of about 50 odd MWs for sale, but our view on any business is that in due course of time, every business has to keep expanding, has to become more efficient, has to keep growing. So, for two years, may be due to industry things are bit of a slow stage, but down the road, we will have to grow again and we have done that in all our businesses over the last 10 years and we will do that in sugar also.

**Sachin Kasera:**

What is the CAPEX plan for the Hariyali division next year?

**J. K. Jain:**

It will depend on how many own centers we have because that is where the major CAPEX is, we still need to firm up what will be the breakup in own centers and leased stores based on which we will firm up, it has not been firmed up as yet.

**Sachin Kasera:**

And sir, the Rs 375 crore of CAPEX you mentioned for cogen and the Bharuch expansion in power plant, how much has been spent till date, sir, approximately?

**J. K. Jain:**

On Bharuch, major has been spent, on cogen major will be spent next year.

**Sachin Kasera:**

So, may be you can say around 200, 225 spent and another 150 odd is pending?

**J. K. Jain:**

On Bharuch, yes. You are talking about total?

**Sachin Kasera:**

Yeah, of the total 375, how much has been spent till date, sir, as on 31<sup>st</sup> December?

**J. K. Jain:**

You are right, almost 230, 240 has been spent and balance will be spent next year.

**Sachin Kasera:**

So, basically if you look at FY09 around 150 crore from the ongoing CAPEX and further some CAPEX funding that will be the CAPEX for the next year?

- J. K. Jain:** Yes, you are right.
- Ashwini Agarwal:** Good evening sir, this is Ashwini Agarwal here. Sir, I have got few questions on the fertilizer business, sir, we had seen a de growth in the urea volume for this quarter, what has been the reason for that, sir?
- Ajay Shriram:** No the turnover has come down.
- Ashwini Agarwal:** Even the sales have come down, sales volume.
- Rajiv Sinha:** This particular quarter we had a slightly lower production, but for the full rabi season, there is a certain allocation method from the government . We are permitted to produce 3.7 lakh tonnes, so we basically spread it over the period and that's why, because we were already running ahead of our allocation for rabi season, so we have slightly cut down and in the next quarter we will complete the production, because we have enough margin to complete the full quota that we are permitted to sell.
- Ashwini Agarwal:** Okay sir, how much gas is required for the entire plant, if you run your plant entirely on gas, then how much gas will be required?
- Rajiv Sinha:** We require about 0.6 million mmscd per day.
- Ashwini Agarwal:** Sir, have you entered into any contract with any of the players?
- Rajiv Sinha:** As I said earlier, we are right now buying only on the spot basis, because nobody is right now looking at getting into a long term contract, whether it is Reliance, whether it is GAIL or whether it is anybody else and I think it will be probably second half of calendar year 2008, that we might see some possibility of long term contracts.
- Ashwini Agarwal:** Sir, what exactly is the spot prices of gas and naphtha?
- Rajiv Sinha:** We have bought around 12 dollars.
- Ashwini Agarwal:** Okay and naphtha, sir?
- Rajiv Sinha:** I understand that some of the recent purchases, which some of the other people have made have gone as high as 15 to 16 dollars.
- Ashwini Agarwal:** Naphtha has gone 15 to 16 dollars.

- Rajiv Sinha:** Not naphtha, I am talking about gas. Naphtha today is about 20 to 21 dollars.
- Ashwini Agarwal:** Okay, that's fine sir, and what has been your energy consumption, how much energies you have consumed for production of urea?
- Rajiv Sinha:** We have a norm which is defined by the government, which is about 7.8 gcal per ton of urea.
- Ashwini Agarwal:** Okay and sir, what has been your retention price pre transforming to gas and post transformation to gas?
- Rajiv Sinha:** See we haven't yet switched over 100% to gas, as we said, we were able to produce only 47% from LNG, the balance was still from naphtha. I think this retention price right now is not reflective of position either way.
- Ashwini Agarwal:** Okay, purely based on naphtha, what was your retention price?
- Rajiv Sinha:** About 17,000.
- Ashwini Agarwal:** Okay sir, thank you sir, if I have got any questions, I will come back to you, sir.
- Ajay Shriram:** Thank you.
- Moderator:** Next is a followup question from Mr. Avinash Nahata of IL&FS Investsmart.
- Avinash Nahata:** Sir, you have mentioned that there will be a savings to the tune of Rs 40 crore on a direct cost basis by switching over to this coal-based power this is on the existing capacity of 200 tpd?
- Ajay Shriram:** No, this will be on the total, which is 360 tpd.
- Avinash Nahata:** Okay, this is on the total 360 tpd, thanks a lot.
- Ajay Shriram:** Okay, thank you.
- Moderator:** Thank you sir. There are no further questions. Now I hand over the floor to Mr. Ajay Shriram, Chairman and Senior Managing Director of DCM Shriram Consolidated Limited for closing comments.
- Ajay Shriram:** Thank you, well I would like to thank all of you for coming on this conference call and taking the time to be with us today. Frankly what has happened over the last couple of

quarters, when we have had the occasion to sell the land, our Swatantra Bharat Mills land, which has given the company a major financial injection as well as, in the last quarter with sugar looking better, and with our two expansions on the way right now in Bharuch of putting up this 48 MW coal based power plant and increasing our capacity of the caustic soda chlorine plant in Bharuch and our cogen plants in our two sugar factories, we are quite bullish and positive on the way things are moving on the way ahead. Our new businesses are growing very well, Hariyali and Fenesta and we expect them to be major legs of the business down the road. So, we are quite positive and bullish on the way things are looking for the company over the next couple of quarters and we will be happy to meet up every quarter and share what is happening in the company with all of you. Thank you very much once again for taking time out to be with us. Good bye.

**Moderator:**

Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

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**Note:**

1.This document has been edited to improve readability.