



**DCM Shriram Consolidated Ltd.
Analysts/Investors Conference Call**

October 29, 2007

Moderator: Good afternoon ladies and gentlemen, I am Rochelle, the moderator, for this conference call. Welcome to the Q2 FY'08 conference call of DCM Shriram Consolidated Limited. For the duration of this presentation, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Sherna of Citigate Dewe Rogerson. Thank you, and over to you, Sherna.

Citigate: Thanks Rochelle. Good afternoon everyone and welcome to DCM Shriram Consolidated Limited's Q2 FY'08 conference call. Thank you for joining us today on this conference call. Today, on this call we have with us Mr. Ajay S. Shriram, Chairman and Senior Managing Director, Mr. Vikram S. 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 S. Shriram: Thank you. Good afternoon ladies and gentlemen. Thank you and a very warm welcome to all of you on this conference call.

During the quarter, we have delivered good operating progress across all our operations and we continue to implement our business plans with a view to create sustainable value over the long term. Let me give you a business by business overview. This time I will begin by discussing Hariyali Kisaan Bazaar and Fenesta Building Systems businesses, both of which are delivering strong growth and emerging significant value drivers for the future.

Hariyali Kisaan Bazaar added 16 new outlets to its ever increasing network during the quarter under review. Hariyali Kisaan Bazaar opened its first outlet in Andhra Pradesh marking its entry into South India. These bazaars are aimed at providing the farmer agri inputs, fuel, FMCG goods, consumer durables and a whole range of services including financial and insurance, under one roof. During the quarter we launched credit services in association with HDFC Bank which provides loans for various purposes. We intend to scale this service up to a full fledged banking service going forward. Hariyali Kisaan Bazaar has successfully created a strong niche position for itself in a short period of time. We currently have 105 outlets and plan to expand them to 250-300 outlets by the end of FY09. Our Fenesta division's order book as on 30 September 2007 stands at 3,56,183 windows. We now have a marketing presence in eleven cities in India along with five fabrication facilities. We have an extrusion facility located at our Kota complex which is a state-of-the-art facility. We are currently witnessing a healthy demand and our new products continue to receive an encouraging response

from the customers. We further plan to increase awareness and penetration across markets for Fenesta products.

We are particularly encouraged by the progress of both these businesses and expect them to be engines of future growth.

Let me now take you through the performance of other businesses. Our Chemical businesses performance was moderate due to lower ECU realizations. However, the ECU realizations have been on a stable uptrend over the past two quarters. The capacity expansion at Bharuch for Chlor-Alkali from 200 TPD to 360 TPD is progressing as per schedule. We are also setting up a 48 MW thermal power plant in replacement of our existing 24 MW furnace oil based plant. Further, this expansion will enable us expansion will enable us to reduce costs in our chemical business.

Plastics division delivered better performance due to higher volumes, on account of capacity expansions completed last year and higher realizations, which have witnessed a consistent uptrend over the past year.

Cement manufactured by us is from sludge produced by our Calcium Carbide plant due to which this business is limited in size. Our volumes during the quarter were low due to a three week planned maintenance shutdown, while realizations continued to be healthy.

Our Fertilizer business registered an increase in revenues and profitability compared to the corresponding quarter last year. In Q2'FY07, the fertilizer plant was shut down for LNG conversion and maintenance. In a significant development, we started partial use of LNG in place of naphtha at our Kota plant.

The Sugar business continues to be under pressure on the back of low selling prices. We plan to expand our Sugar division's co-gen power capacity from the present 70.5MW to 94.5 MW with an exportable surplus capacity of 51.5 MW (from 27.5 MW currently). This capacity expansion is expected to come up by October-November 2008.

As announced earlier by us, we liquidated our rights, title and interest in the SBM land Redevelopment Project during August this year. DSCCL received a sum of Rs.838 crores as consideration on signing the Agreement to Sell. In line with our philosophy of sharing business rewards with our shareholders the board declared a special interim dividend of 150% on equity shares having a face value of Rs. 2, amounting to an outgo of Rs. 58 Crore including dividend distribution tax. The net addition to Net Worth, after capital gains tax and dividend, is estimated to be Rs. ~ 650 crores. We plan to utilize this money towards improving the quality of our balance sheet and implementing further growth initiatives.

With that, I would now like to invite Vikram to take you through the financial numbers of the Company for Q2 FY2008 and H1 FY2008.

Thank you, very much.

Mr. Vikram Shiram: Thank you and good afternoon ladies and gentlemen. I would once again like to thank all of you for joining us today on this conference call. I will run you through our numbers quickly for the quarter and half year ended 30th September 2007.

Let me first give you a brief idea about on our Q2FY08 numbers. Our income from operations stood at Rs 597.5 crore as compared to Rs.666.4 crores for Q2'FY07. The decline in revenues was primarily attributed to discontinuation of imported bulk fertilizers trading. However, Revenues under "Own Products" (gross basis) increased by 33% to Rs.562 crores.

At PBT level (before exceptional items), the company registered a loss of Rs.22.7 crs as against a profit of Rs.15.6 crs in the comparable period last year, primarily due to losses in sugar business. PAT for Q2'FY08 stood at Rs.607.1 crore as compared to Rs.10.8 crore in Q2'FY07 on account of exceptional income arising from the sale of title, rights, and interests in SBM Land Redevelopment project. As mentioned earlier, the sale proceeds has strengthened our balance sheet and enables us greater headroom to implement our growth plans.

Moving on to our Half-Yearly numbers, Gross Revenues under "Own Products" were up 19% at Rs.1143 crores, in comparison to Rs.959.7 crore for HY FY07. However, lower revenues in traded products segment due to discontinuation of bulk fertilizers trading in this year led to decline in overall Net Sales to Rs.1214 Crs from Rs.1346.9 Crs in HY FY'07.

On account of continued adverse operating environment in Sugar business, the company registered a loss of Rs.33.54 Crs at PBT level (before exceptional items). However, exceptional income on account of sale of land, led to PAT of Rs.599.3 crore for HY FY08 as compared to Rs.41 crore for the same period last year.

Let me now take you through our segmental revenues.

Chemicals

Revenues and PBIT for this business were lower due to a decrease in volumes and ECU realizations witnessed in this business. However, there is an uptrend observed in the ECU realizations compared to the previous two quarters. . The realizations are up ~13% and ~25% over Q1'FY08 and Q4'FY07 respectively.

Plastics

Our Plastics business revenues were up by 11% and PBIT was up by 27.5% for H1 FY08. Higher volumes, on account of capacity expansion completed in July last year, and better realizations led to increased revenues and profitability of the plastics business.

Cement

DSCL cement manufacturing facility underwent a planned maintenance shutdown for three weeks for the quarter under review which led to lower revenues and profitability. Due to the integration of its operations the Company's cement business is of a limited size relative to its plastic businesses.

Fertilizers

Fertilizer business delivered substantially better performance in Q2 and HY FY08 with growth in revenues by 171% and 32% respectively along with increase in profitability. Our Fertilizer plant started partial use of LNG as its feedstock in place of naphtha during the month of September.

Sugar

The revenue in Q2 FY08 from our Sugar business was at Rs. 91.3 crore and for H1 FY08 revenue was at Rs. 237.0 crore. The volume growth in this business was on the account of the expansion carried out during the 2006-2007 sugar season.

The Sugar segment reported a loss of Rs.26.7 Crore and Rs.42.3 Crore for Q2'08 and HY'08 respectively. Substantially, lower realizations and consequent write down of inventory, led to adverse business performance. The sugar business continues to face an earnings challenge given low sugar prices and high cane cost.

The Company currently has an exportable surplus of 27.5MW from its co-gen power facility which it plans to expand to 51.5 MW by November, 2008. This expansion entails a capex of Rs. 50 crore at our Loni and Hariawan sugar units.

Traded Products

We discontinued the import of bulk fertilizers from Q1 FY08 onwards due to unfavourable government policy and constant delay in receiving subsidy dues which exerted pressure on our margins. This decision is expected to enable us improve margins going forward.

Others

The Company's other businesses, reported as 'others' in the financial results; primarily include Fenesta Building Systems, and Hariyali Kisaan Bazaar. Revenues under 'others' registered a 47% growth at Rs.85.6 crore in Q2 FY2008 compared to Rs. 58.3 crore in Q2 FY2007. For H1 FY2008 revenue under 'others' was up 56% at Rs. 164 crore.

Hariyali Kisaan Bazaar, DSCL pioneering rural retailing initiative revenues grew by 74 % and 76 % respectively for the quarter and half year under review. In view of the enthusiastic response to this business from the rural milieu, we plan to expand this business aggressively to 250-300 outlets by Mar, 09 across pan-India.

Revenues from Fenesta Building Systems this business increased by ~38% and ~55% for the quarter and half year under review respectively. The business continues to exhibit positive growth momentum.

This brings me to the end of our discussion. Thank you for participating in this call. We will now be glad to take any questions that you may have. Thank You.

Moderator: Thank you, Mr. Shriram. Ladies and gentlemen, we will now begin the question and answer session. Participants who wish to ask a question at this time, may press “*” followed by “1”. In case you want to withdraw your question from the question queue you may press “*” followed by “2”. Participants are also reminded to use only handsets while asking a question. Anyone who wishes to ask a question, may press “*” “1” now. The first question comes from Mr. Sachin Kasera from Pinc Research. Please go ahead.

Sachin Kasera: A couple of brief questions only regarding the CPP, regarding the captive power plant coming at Bharuch, could you give some sense as to what is our current cost of production and how much of saving will accrue to us when we move to CPP?

Ajay S. Shriram: I think the expected benefit out of this expansion and by putting up this coal based power plant, the benefit would be about Rs.50 to Rs.60 crore. The basic issue today is if you see we are based on furnace oil. Based on the furnace oil price today based on oil at \$92 and unfortunately while reading in various papers some say oil price of \$100 is normal, someone saying \$110 is normal, we feel this conversion is very timely and the fact that the project should be commissioned by May-June next year, clearly we will get full advantage of the expansion plus the lower power rates.

Sachin Kasera: What was your current cost of production effectively on per unit basis?

Ajay S. Shriram: It was Rs.4.50 paise per unit of power cost today.

Sachin Kasera: Sir, what about the coal linkages for this?

Ajay S. Shriram: We are looking at two-three options. One is we have already made the application in India, but we are also looking at imported coal for servicing this plant because Bharuch is near coast and we can bring it in by ship. So we are studying all options and we will then decide based on the best alternatives, which come at that time.

Sachin Kasera: Secondly sir, regarding the demand supply scenario on the chemical side, how does it look for the next four to five quarters, now that we also have additional capacity coming in from next year?

Ajay S. Shriram: What happens you see, if you look at the last 10 years or 12 years in the Chlor-Alkali industry, it moves in a basis of steps, suddenly there is a huge jump in capacities which comes in quickly then maybe for six months or nine months there is a little pressure, the price is a little soft, but then it picks up again. The good thing is that I think with the Indian economy growing at the rate of 9% the overall demand for products like caustic, chlorine, PVC, etc., is moving fairly well. You see little pressures, in business keep coming up and down, but in the long-term we are quite bullish and

we feel that this is a good investment we are making for our power plants as well as on our expansion.

Sachin Kasera: Right. But sir, apart from yours are there any other capacities coming up next year, in chemicals? We are adding, I think capacity 160 tonnes per day are there any other capacities in the industry which are envisaged next year?

Ajay S. Shriram: Next year, the capacities, which are coming up in the year 2008-2009, there are three to four plants coming up and the total capacity, which will come in will be about 3 lakh tonnes that is our estimate. The industry is also growing at about 5% plus.

Sachin Kasera: Sir, what about the current industry utilization approximately, I think we are at around 95% plus if I get it right?

Ajay S. Shriram: I think everyone is running about the same. I think it is in the range of about 85% which is a very good capacity utilization for plants. So I think frankly with the demand like this, between 85% to 90% will carry on.

Sachin Kasera: Sir, with this incremental capacity up coming next year, you do not see the industry utilization falling below 85%?

Ajay S. Shriram: We do not feel that because the economy is growing well, the demand is growing well, as you are aware the new aluminum plants are coming in, the expansion on all user fronts, paper, everything else is moving well. So a little aberration here and there one cannot say, but overall we are quite bullish on the business.

Sachin Kasera: Secondly, you just stated that you have acquired a company called DCM Energy, what is that company exactly trying to do?

J.K. Jain: This is a vehicle we have promoted just to take care of any future business opportunities that may come up. Right now there is no specific plan for that company.

Sachin Kasera: I was just wondering that we have significant strength in terms of power generation that is right now very exciting area and the company is also sitting on huge amount of money after the land sale. So are we exploring any opportunities in terms of improving our power business?

Ajay S. Shriram: Well, maybe I am not sure if you are all aware that we bid for a 108 MW power plant, hydel power plant in Himachal Pradesh and that was opened about two months back and we won that bid. So, we in fact are in the process of now taking that project forward. We have tied up with a Canadian consultant who has done a lot of work in India to do the DPR for us and their people have already visited. This is beyond Manali, so people have already been there. Three sets of people have been there to do the basic work and during the winters access is difficult, but at least they have got

the information and now we are putting together the DPR. The DPR of a hydel project takes time, it will take nearly a year, a year and a half at least. So we are looking at the size of power at 108 MW and as you maybe aware that we have been allotted a lignite mine in Rajasthan and that was really to bring the coal or lignite for our own operation at Kota. We are looking at all options depending on the size once we get into the drilling part of it, which will take maybe another about 8 to 10 months, then we will have a better idea of much lignite we have and then we are going to look at that for either utilizing in Kota itself or generating power as a merchant plant. We will then take a view.

Sachin Kasera: Where is this mine located?

Ajay S. Shriram: This is in Rajasthan. It is in Nagore area, in Rajasthan.

Sachin Kasera: If you could brief me in this hydel plant are we or it is a joint venture company?

Ajay S. Shriram: It is with some experts who have been in the hydel business, they will have up to 30% shareholding in this company and we are planning to have the balance and it will be a joint venture with the experts, not with the government, if that was your question. But yes, we do want to get some experts in the business who can add value to the project.

Sachin Kasera: What are the terms of this lignite, can it only be used for captive power plant or it can also be used for putting up merchant power?

Ajay S. Shriram: Well at the moment it is captive. But when you discuss with people the policy keeps changing and if you were to put up a power plant at the pit head so to say it will take another two years, two and a half years. So at the moment you are moving to start mining there to bring the lignite to our Kota complex. That will reduce our cost of energy.

Sachin Kasera: Sir, would it make sense for us to expand the capacity at Kota itself because I think we already have the infrastructure for the 85MW?

Ajay S. Shriram: No, we have 130 MW at Kota.

Sachin Kasera: Do we have the requisite infrastructure and will it be more cost feasible to expand the power capacity at Kota itself, say from 130 to 200 or 250 in the first place?

Ajay S. Shriram: I think the issue that comes in is that we will have to expand the capacity based on a particular business plan. Every time we have expanded any of our operations, we have put up corresponding power plant requirements so that on the cost front we are protected vis-à-vis the state price as well as the erratic quality of power. So any expansion we take we will look at power in any case.

Sachin Kasera: Sir, can we also use this lignite for our power plant coming up in Bharuch?

Ajay S. Shriram: No. Lignite cannot be used there. That is based on particular specifications of coal.

Sachin Kasera: Fine sir. That is all from my side. Thank you.

Ajay S. Shriram: Thank you.

Moderator: Thank you, Mr. Kasera. The next question comes from the line of Mr. Karan Vasani from CRISIL Limited. Please go ahead.

Karan Vasani: Good afternoon sir. A couple of questions on the sugar business. Sir, what would be your outlook for the SAP in U.P., this coming season?

Ajay S. Shriram: That is a very tough one. I must be honest, I think the only thing is there is a realization across the board at the national level and at the state levels that unless there is a pragmatic long-term policy on sugarcane pricing, really it will be a losing situation for the state government, for the farmers and for the industry and ultimately that will lead to a situation where farmers will produce less and less sugarcane, ultimately the consumers will get hit also very badly.

Karan Vasani: Absolutely.

Ajay S. Shriram: So we had many meetings with the government in UP and we have explained to them and they also appreciated the problem, I think they are trying to address that, we are trying to see what is the most practical way out, but you are right, if we move an SAP of last year then it is going to be difficult, but our feeling is some practical via media should happen.

Karan Vasani: Right. Since generally the SAP, if my understanding is correct, is usually announced by the last week of October with crushing due to start by early next month probably, so by when are we expecting the announcement?

Ajay S. Shriram: I really cannot. I think this is just the estimate, if I have to be honest, but normally one would expect maybe sometime after Diwali.

Karan Vasani: With this coming season now the production being talked about is about 30 million tonnes, do we see some cane price rationalization does not take place the actual production could be quite a bit lower than that because mills will just not be able to take the cane?

Ajay S. Shriram: You are right. Our estimate is that unless there is a rationality in the cane pricing because of the very tight squeeze, as it is on the sugar industry many companies may have a problem to start itself at the season and within a couple of months with the sugar price being the way it is and

cane price if it comes to SAP so this mismatch is a very high order, which will effect the industry definitely but also the farmers and also the consumers and the government frankly.

Karan Vasani: True. So the 30 million tonnes of production that we talk about, would be difficult if there is no cane price rationalization that takes place?

Ajay S. Shriram: I do not know how it moves, I must be honest, but the companies will have a problem, frankly none of us in the industry knows exactly what is the state in each company, but some standalone companies may have a bigger problem than companies like ours where you can conglomerate with a couple of other businesses which are there to support. So we have to wait and watch.

Karan Vasani: Sir, from the UP sugar industry promotion policy, I mean, you know when the initial notice came out, they said an announcement could be expected soon on the new policy, but so far as per my understanding nothing has come out, so what are we expecting on that front?

Ajay S. Shriram: We have not heard of what they are looking at, I think, at the moment, frankly, our discussion with the state, they are first concerned about the clearing the cane juice of last year. That is the first priority. If I am not mistaken, I think, even now a Rs.1,000 crore plus as arrears of last year, so what we are discussing now is coming in with a rationalization sugar pricing, how to make sure, for the next two years the industry, the farmers and the government work together for the betterment of everyone. On the policy they are saying that they want to make it rationale, but I think they are also going to see how is the best way to do it, because as you know in politics they have their own compulsions, so I think they are just trying to figure out also what is the most rationale way which can become satisfactory for all concerns. Regarding this incentive scheme there are five companies who had already got the eligibility certificate of the expansions done and we were one of them. So our confidence is there that whenever they come in with looking at any incentive scheme or policy, new or old, for the sugar industry we will be one of the front runners for the expansion that are completed. Our state government teams have already visited, they have seen the expansions, so we are better than many other companies.

Karan Vasani: Also on the notice we have mentioned in our investor communication that there has been inventory write downs that have taken place, so what is the value of our inventory at this point? I mean what is it been valued at on a per kg basis?

J. K. Jain: That would be difficult to share because that is confidential information.

Karan Vasani: Not a problem, but somewhere around Rs.13, would it be?

J. K. Jain: It is in line with the current market price.

Karan Vasani: One last question, what impact do we see of the sops announced recently by the government, on the sector, moratorium on loan repayments and those kinds, what is the impact in your opinion that is likely to have on most sugar companies?

Ajay S. Shriram: I think over the last couple of months what the government has done of providing financing for a buffer stock for encouraging exports and giving a subsidy for various parameters is a very positive step and we appreciate what the government has done. But, I think the issue, which is the heart of the matter is going to be what is the cane price and how is that sustainable in a practical way to ensure that the industry can pay the farmers at whatever price is agreed. So that is a bit of an open question right now, but the industry is in dialogue with the government on a very frequent basis and has explained to the government over and over again and various people in the government, various levels in the government that look this is a reality, this is the situation. So let's have a practical view.

Karan Vasani: Right. Thanks so much for your insight, sir.

Ajay S. Shriram: Thank you.

Moderator: Thank you Mr. Vasani, The next question comes from an individual investor, Mr G. K. Raju. Please go ahead.

G. K. Raju: Basically, I have two questions here, one is we see that the interest cost have gone up in Q1 from Rs. 38.15 to Rs. 52.91 crore. So with company sitting on such huge cash what are the plans do we expect high cost debt to be retired, so that interest cost comes down?

J. K. Jain: See the interest cost has gone up primarily, because we had capitalized the new sugar factories in Q4 last year. The second part is that this land revenue, which you are talking about this came in August end, so during Q2 we have had only benefits for one month for the interest. So only Q3 interest will capture the full benefit of that land revenue.

G. K. Raju: The other question was any plans for listing Hariyali Kisaan Bazaar as a separate entity in the stock markets?

Ajay S. Shriram: As we mentioned earlier we have got our shareholders approval and the board approval to hive off Hariyali Kisaan Bazaar as a separate corporate entity. We are studying the alternatives and what are the various options and what is the best timeframe look at hiving it off and that study is on and we are bullish on the Hariyali business and we are confident that down the road it will become a fairly unique model for rural India, so based on those, we are going to go ahead and it is difficult to give a timeframe right now by when it will happen, but that is on agenda.

Moderator: Thank you Mr. Raju. The next question comes from the line of Ashish Kacholoo from Lucky Securities. Please go ahead.

Ashish Kacholoo: Good afternoon sir, I just wanted a couple of data points on the Hariyali business, could you tell me the anticipated turnover for the current and the next financial year?

J. K. Jain: See the Hariyali business plan is evolving continuously. We are wanting to accelerate it as much as we can. So as a result of which the turnover plan is a little dynamic figure. I do not think we can give it right now.

Ashish Kacholoo: What are the sales per square feet?

Ajay S. Shriram: Sales per square foot?

Ashish Kacholoo: On a thumb rule basis?

J. K. Jain: See the problem is that since the offerings and the model is continuously evolving, we are not in a position to still generalize and give you a number. This is what we are expecting since the offerings are continuously being expended in this. Earlier we started with only agri-line, now we are selling agri and family both. So the numbers are changing dynamically.

Ashish Kacholoo: The pre tax margins?

J. K. Jain: As we said right now this business, because it is in a gestation period, it is using cash it is not making cash.

Ashish Kacholoo: Yes, but I mean in some anticipated number over the next one, two, three in a stable state what you are having because typically retailers operate about 5%-6%. Would it be fair to assume that this business will have similar dynamics?

J. K. Jain: We would like to aim at 6%-7%, but we still need to work out the details for that.

Ashish Kacholoo: All right, and sir, the anticipated size of the Fenesta business, this year, next year how do you see the business shaping in the next two to three years?

Ajay S. Shriram: We are in our own thinking and our planning, as it is today have a pending order of 3.5 lakh windows. Our reach of the product is penetrating more and more into cities all over India. Our fabrication shops are there, Bhiwadi near Delhi, in Bombay, in Hyderabad, and Chennai, and Bangalore. We are looking to set up in office in Calcutta, we will ship it maybe from Hyderabad or somewhere as the orders start coming. But our feeling is that with the construction activity going up and with people requiring a better product, adding value esthetically and from a practical point of view that the potential for this business is fairly satisfactory, and in the three years' time and this year we

have a pending order of 3.5 lakh windows is not bad. So it was 1 lakh last year, 1,16,000, I think, was last financial year.

Ashish Kacholoo: For the total sales?

Ajay S. Shriram: That was the pending order position.

Ashish Kacholoo: Pending order position is 115,000 and now its 3 lakhs, is it?

Ajay S. Shriram: 3.5 lakhs

Ashish Kacholoo: So it is expanding at a fast pace.

Ajay S. Shriram: Yes, it is moving well, it is moving very well, we are in fact moving at expanding our extrusion facility also at Kota. At the moment we have got three extruders and now five have been commissioned and we are looking at what more we need, so that the delivery and gestation is 10 months to get the equipment. So we are perpetually looking at what is the right time maybe to be able to get one or two more extruders. So we can get larger range of profiles and a larger volume.

Moderator: Thank you, Mr. Kacholoo. The next question comes from the line of Upendra Kochar from Kochar Financial Services. Please go ahead.

Upendra Kochar: Sir, hindi mein question kar sakta hoon?

Ajay S. Shriram: Zaroor.

Upendra Kochar: Ek question puchna tha. Yeh aapne Delhi ki property jab bechi hai uske alava aap aur bhi kuch property bhechana chathe the jho BSE ke announcement main diya hua hai?

Vikram S. Shriram: Nahi.

Upendra Kochar: Aur bhi teen se char property hai, Chennai mey tha aur ek do aur properties jho thee?

J. K. Jain: No, we did not say we want to sell those properties, we said that we have these properties, which we took shareholders' approval to decide whatever we want to do with those properties, but there was no decision to sell those properties.

Ajay S. Shriram: Even now, there is no decision to sell the properties. We are not looking at selling anything else.

Upendra Kochar: But, property idle hain?

Ajay S. Shriram: Property dekhiye hum logne kharidi thee, Pondicherry ke pass aqua project ke liye, ab woh aqua project humne karee nahi us time. Kyunki us time woh infection, aa gaya prawns mein and everyone advised ki aap mat kareein. In the meantime, humare aur baki expansions ho gaye, Bharuch set up ho gaya, aur baki expansions ho reहे hain tho ab woh land hain humare pass 380 acres of land, so it is appreciating, it is an asset with the Company and the Company take a view whenever they want.

Upendra Kochar: Second thing is the Fenesta business hain jho aapka, usme yeh 3.5 lakh jho order hain pending, iska value main convert kar sakte hain?

Ajay S. Shriram: Rs. 200 crore ke kareeb hoga.

Upendra Kochar: Rs. 200 crore ke aas pass hain? Mujhe dyan main ayi the apka jho order mila tha 70,000 ka jho, woh Rs. 26 crore ka tha? Agar uska supply karte hain to Rs. 130-135 hota hain?

Ajay S. Shriram: Mere kayal se Rs. 150, 175 ke beech main hoga.

Upendra Kochar: Kab isko execute karenge aap?

Ajay S. Shriram: As and when the buyer wants the windows.

Upendra Kochar: Koi timeframe hain, jaise, 1.5 year, two years or 2.5 years?

Ajay S. Shriram: Mere kayaal se agle 2.5 years mein ho jayiga.

Rajiv Sinha: 12 se 18 months lagte hain aur us beech mein aur order aate jayenge. Windows ke size aur shape alag hote hain.

Upendra Kochar: Woh to barabar hain, right.

Rajiv Sinha: Aap usko proportion main nahi le sakte.

Upendra Kochar: Aur koi building material main ja rehen hain, Fenesta ke alawa?

Ajay S. Shriram: Nayi, abi to aur kush nayi dekh rahen hain.

Upendra Kochar: Nayi dekh rahen hain. Aur isme service ka percentage hain?

Ajay S. Shriram: Kya matlab hain?

Upendra Kochar: Jaise aap jho lagate honge uske service income bhi usme se? Kabi athi hain na?

Ajay S. Shriram: Nahi, nahi yeh, jho window hain, yeh hamare log jakar pehle naap lete hain, kya dimension ki window hain, uske baad uske dimension ke hisaab se banvate hain, aur humare log jakar install karte hain. Aur ek baar install ho jayega tab tho woh contract pura ho gaya.

Upendra Kochar: Nahi, uske baad suppose one, two years main jaise koi warranty vagera hoti hogi, nayi?

Ajay S. Shriram: Sorry, kya hoti hain?

Upendra Kochar: Warranty vagera hoti iska?

Ajay S. Shriram: Agar koi hoga to we will address that.

Vikram S. Shriram: Abhi tak tho koi service cost nahi hain.

Ajay S. Shriram: There is no service cost, abhi tak koi problem aisi nahi hain.

Upendra Kochar: Service dene ki zaroorat nahi padti aage?

Rajiv Sinha: Maintenance contract nahi hote hain isme.

Upendra Kochar: But agar suppose aghe koi income aane ki koi sambhavana?

Ajay S. Shriram: Nahi, this is a one-time sale only, with a contract.

Upendra Kochar: Acha, one time sale only.

Ajay S. Shriram: Yes, it is a one-time sale only.

Upendra Kochar: Teesra yeh jho, Hariyali joh a aapka, jab yeh aap is 250 complete ho jayega 1.5 years or 2.5 years to is time kitna expect kar sakte hain turnover?

Ajay S. Shriram: Abhi to mushkil hoga batana kyunki yeh calculation hamne nahi kiya hain.

Upendra Kochar: Anyway Hyderabad ka kitna experience raha hain? Yeh Andhra side main joh aapne open kiya?

Ajay S. Shriram: Andhra main humare chaar dukane hain.

Upendra Kochar: Ha toh uska kiasa experience?

Ajay S. Shriram: Experience, club hi recently huey hain, aur kyunki agri-imports ka demand joki woh cyclic hoti hai, sowing the time or particular time of the year, so eke pura saal ka complete ho jaye woh jathe woh cycle theek se pata chalegha ki kab kahan peh hain lekin yeh zaroor hai ki humain nischithi huin hain ki joh Hariyali Kisaan Bazaar model hain woh farmers ke liye, farmers ke family ke liye, aur ab toh yeh aur aghe jake rural customer ke liye. Abhi ek achi jagah mil gayi jahan log haten hain toh malum hain ki badi fair price main unko quality material milega. They are assured of quality at a fair price.

Upendra Kochar: Jaise apko yeh small experience hua hain jaise Hariyali bazaar ka, toh agay jakar aap small town or bigger town main bhi ja sakte hain?

Ajay S. Shriram: Nahi, hum woh nahi dekh rahen hain.

Upendra Kochar: Aisa koi agay koi scope nahi jain?

Ajay S. Shriram: Nahi.

Vikram S. Shriram: Within the rural India, lekin bahoot scope hain, because there are 6 lakh villages in India, so I mean in the long run we will not be stopping at 250 dukan, but humara toh plan hain ki har saal 150 dukan add kareh.

Upendra Kochar: Isme kya return kya milega?

Vikram S. Shriram: Yeh viable business model hain iska aur attractive business model hain.

Upendra Kochar: Agar, suppose main ek example doon, jaise apke 250 complete ho jata hain, right, aur uske agar do teen saal baad woh joh 250 ka agar total revenue agar hum dekhenge, toh kitna mil sakta hain?

Ajay S. Shriram: Abhi to mushkil hain batana.

Upendra Kochar: Phir bhi ek andaaz?

Vikram S. Shriram: Mushkil hoga, kyunki koi joh dukhane ki size vary karte hain...

Upendra Kochar: Phir bhi Rs. 3 to 5 crore per matlab mil saktha dukhan mein?

J. K. Jain: See it is. I think to generalize because we are increasing the offering every time so we are still evolving the model actually.

Upendra Kochar: Apne iz Bharuch ka apne bola Rs. 50 and 60 crore ka benefit milenga. Toh seedha seedha bottom line mein jahenga?

Ajay S. Shriram: Correct.

Upendra Kochar: So matlab yeh kafi acha profit rahega, it means Rs. 3 to 4 EPS attractive hain?

Ajay S. Shriram: Frankly see furnace oil ke daam joh ho gahe hain uske comparison mein humare cost of production ko bahut fayada hoga.

J. K. Jain: And this Rs. 50 crore is at EBITDA level so capital related charges will come in after that.

Upendra Kochar: Sir, ek cheez aur puchna tha, apke six seven business hain jiske wajah se apke company ka valuation nahin milta hain, so aap aghe jake koi demerger vagera isa koi plan eh aapka?

Ajay S. Shriram: Dekhiye abhi tho humne jaise kaha hain Hariyali ka dekh hi rahi hain us ka plan karenge, aur down the road jakar woh dekenge kya synergy kahan Banti hain.

Upendra Kochar: Kyunki kafi apke businesses, six seven businesses hain toh matlab kabhi sab confuse ho jate hain ki kis tarah ka valuation hona chahiye, so is hisaab se valuation apko nayi mil nahi rahan hain?

Ajay S. Shriram: Theek baat hain. Aap joh point mein kar rehen hain, bilkul valid hain hum log isko study karenge, dekhenge down the road kya kar sakte hain.

Upendra Kochar: Thank you sir. Thank you, very much.

Moderator: Thank you, Mr. Kochar. The next question comes on the line from Mr. Sachin Kasera from Pinc Research. Please go ahead, sir.

Sachin Kasera: A couple of follow up questions, one is regarding PVC, I think the business has been doing very well for the last few quarters operating at full capacity in your Company one question is that do we have infrastructure available that we can increase the capacity further, are we looking at that option?

Ajay S. Shriram: Capacity expansion has been completed last year. So at the moment we are not looking at any further expansion in the PVC capacity.

Sachin Kasera: But incase we want to go at, if we wish for that, do we have the requisite infrastructure available for that?

Ajay S. Shriram: In Kota we have enough infrastructure that too is not a problem, but what we are looking at in the near future also is going in for different types of PVC resins of high K-value and low K-value, which are for specific requirements where the realizations are better than the normal PVC.

Sachin Kasera: Sir could you give some idea approximately what is the type of premium or extra realization that we can get by getting into this?

Rajiv Sinha: Either you can sell this as resin or you can compound it and sell and our first attempt will be to do compounding, because there the realizations we can expect even as high as 15% to 20%.

Sachin Kasera: Okay.

Rajiv Sinha: So that is what our aim is but there is a lot of development work involved here, because these markets are not ready markets. So that is where we will be focusing on, to develop these specialized applications with. We have now the technical capability to produce different grades, which we did not have earlier prior to the expansion. So our direction would be in terms of seeing how to add more value to this.

Sachin Kasera: So sir, if we were to take a two to three year view, what is the percentage of PVC that we are looking for valuation, either in PVC compounds or something like a Fenesta or the special resin that we are talking about?

Rajiv Sinha: I think between Fenesta compounds etc., we should be close to 35%-45% of the total production.

Sachin Kasera: Is it that we are not looking at PVC compounds in the immediate term or at least for another few quarters we are not looking at the same, because I believe the return on capital employed in the market, right now are very good?

Ajay S. Shriram: I know but we have not looked at that just now because as you are aware that in the last three years we have invested almost Rs. 1,300 crore plus on various expansions, so we also want to actually let all that mature, get into place and ride properly, Hariyali is taking up money as it is and that is growing rapidly, similarly Fenesta. Similarly, we have got 24 MW co-gen plant actually coming up in two of our sugar factories. So we have all these projects on hand and we will look at it in due course of time, it is a valid suggestion.

Sachin Kasera: Secondly, regarding fertilizer what is the status on the fuel supply tie-up? How much of it right now? What percentage of fuel you are using as LNG right now?

Rajiv Sinha: We have now moved to a 100% based on LNG, but this is all on spot purchase basis from Bharat Petroleum. As of this time no supplier is willing to create a long-term tie-up. In fact, Department of Fertilizer is very active in this matter in trying to help the fertilizer companies to get into long-term contracts. Ours is the first unit, which has changed over from naphtha to LNG under the NPS 3, the new pricing scheme 3 and as soon as the GAIL people completed the pipeline work we were able to get the spot gas and start moving on that and in the last few days we are 100% on LNG.

So, we will continue to buy spot as available, we still have the capability to use naphtha, it is a dual feed system.

Sachin Kasera: Sir what is the price of the spot gas, which you have entered into?

Rajiv Sinha: The delivered on a gross basis is about \$11.6.

Sachin Kasera: How would you compare this with the naphtha that you are using?

Rajiv Sinha: Naphtha is close to \$18 million.

Sachin Kasera: What are your energy consumption norms, for your plant?

Rajiv Sinha: This was under FICC pricing scheme, different units have different norms, and ours is close to, I think, 7.8.

Sachin Kasera: 7.8 giga cal?

Ajay S. Shriram: Yes.

Rajiv Sinha: One difference is that in our case close to about one-third of this LNG is coming from coal and the balance is coming, lets say LNG and a small 5% or so coming through purchase power.

Sachin Kasera: Sir, at what capacity utilization you are running the plant?

Rajiv Sinha: We are producing our full assessed capacity.

Sachin Kasera: Sir, what were the conversion charges from naphtha to LNG?

Rajiv Sinha: We had to spent Rs. 36 crore.

Sachin Kasera: Sir, what is the strategy thereby, because you know we have a small capacity compared to the industry standard of about 4 lakhs tonnes and there is also a talk of a new fertilizer policy coming in, so at any point of time are we looking at expanding the capacity further in case the policy comes out to be favorable to the industry?

Ajay S. Shriram: I think we will have to study that at that time. As of now we have not taken the view of expanding. Marginal debottlenecking depending again on the policy is something that we will look at immediately, if that looks favorable, but we have not looked at putting up any new operation of fertilizer.

Sachin Kasera: But sir if we were to go for either debottlenecking or brown field expansion in the existing unit what type of cost would we have to raise compared to greenfield, will it be much cheaper?

Ajay S. Shriram: It will be. It will definitely. A brown field expansion generally is much cheaper than a greenfield and it depends on the policy actually. I think, you know, we have not been able to put the finger on it yet, but in due course of time whenever the policy comes and if it is reasonable and if it makes business sense then we will definitely look into it.

Sachin Kasera: Sir could you just give an idea briefly in terms of whatever type of contribution margins that we have in Fenesta and with what type of levels would we start to break-even because I understand that right now because of the initial high fixed costs the business is not making money. Can you brief us about what type of level do we start to break-even?

Rajiv Sinha: I think in a business like this when we get order booking it is very much in advance of the actual execution and billing and this again is a ramping up phase, it will take us, I think, at least probably another year before the actual billed volumes also become significant because, the builders when they give orders, the large orders especially have long gestation period, would be 12 to 18 months even. In the meantime we have pushed a lot of focus on retail business, which is in fact more short-term business, I mean, typically a couple of months kind of a business.

Sachin Kasera: Are the margins significantly better?

Rajiv Sinha: Yes.

Sachin Kasera: What would be the mix right now in the revenue between retail and execution?

Rajiv Sinha: Right now retail is a very small proportion, I mean, less than 10% kind of number but that is what we are now focusing on, both from a perspective of margins as well as this gap between the order and billing of the large projects.

Sachin Kasera: But sir coming back in terms of this could you give some ideas to approximately say this type of a quarterly or a yearly run rate in terms of turnover say Rs. 100-200 crore do we start to break-even Rs.150 crore, I mean, any approximation?

Rajiv Sinha: I think that is a little difficulty question to answer at this time because we are just learning to serve and actually do the installation of these windows and retail is a very new, I would say, activity for us, so I think it will take a little while to get a full perspective of these numbers at this point in time.

Sachin Kasera: But can we expect in FY'09 to break-even or still further away?

Rajiv Sinha: I think we should get close to break-even in FY'09.

Sachin Kasera: Looking for Hariyali Kisaan or that would be further?

Rajiv Sinha: No. In fact our ramping up speed will be even more in 2008-09, which means that there will always be almost a large number of stores, which will be just one month, two months, three months or six months old, in operations, so it will still not be a break-even stage.

Sachin Kasera: Sir regarding that spin off for maybe a possible listing of HKB, what approximate timeframe like six months or nine months can we look at some decision from the company as to we would be taking a decision whether we want to keep it as part of the company or go for a separate venture?

Vikram S. Shriram: I think the position that in principle it will be spun off into a separate company, that in principle discussion has been taken by the board. Now we are studying the specifics of how to do it and in which form and fashion and that is being studied along with the legal people and investment bankers etc., and certainly I think in next 6 to 12 months a final decision will be in place and an action plan will be in place.

Sachin Kasera: As you mentioned that you would be significantly scaling up the ramp up of the Bazaar initially, so the improved profitability from the chemical, from the power plant could be eaten away by the increased losses from HKB and we as investors may not see a significant increase in profitability for the last two plus years that we have seen. Would the wait be still very long for investors?

Vikram S. Shriram: I do not think it should be a very long wait because as we have said we are planning to reach a level of about 150 stores by the end of this financial year, so that will be addition of over 100 stores in this financial year and then we will be adding similar or larger number next financial year so should touch turning the corner plus as the number of stores increases of course the market cap and the valuation model for retail business is very different. If we are at a 150 stores by the end of this financial year and between 250 and 300 stores by the end of next financial year the visibility of the Hariyali business in terms of a valuation perspective should certainly start coming through.

Sachin Kasera: Sir are you looking at any more options in hydel power apart from this 108? Are you looking to bid for some more or even on the thermal side are you looking for further opportunities?

Vikram S. Shriram: We are tallying options both on the hydel side and the thermal side, we have teams working on it, we do not have any active bid per se, we have signed MoUs with the state governments and we have bid for some coal blocks also, but we do not have anything concrete in the pipeline other than this hydel plant, which we won in a bid and this lignite mine, which was allotted to us recently.

Sachin Kasera: So sir when you mentioned about using the land sale for further growth opportunity? Are you primarily referring to these two or other options also been under consideration?

Vikram S. Shriram: No right now as I mentioned the growth plans of the expansion and power plant expansion of Bharuch, the sugar co-gen addition and expansion of Hariyali, these are all going to be requiring capital so the plan is to continue putting capital into these ventures, which will further strengthen these operations.

Sachin Kasera: Sir do you have any arrears as on date September 30, 2007?

Vikram S. Shriram: Arrears means?

Sachin Kasera: To the farmers on the sugarcane side.

Vikram S. Shriram: We have the minimum in the industry or amongst the lowest of the industry under 5%.

Sachin Kasera: Sir what are the revenues from co-gen unit this quarter?

J. K. Jain: In the quarter? For the quarter it was not very large, it was about Rs. 1.5 crore or so because the power plant run only for about a month, but to date it was Rs. 10 crore to 10.5 crore in the first half.

Sachin Kasera: Sir, will we see better ramp up for this year because this year will be full to the capacity so can we expect higher income from the power plant?

J. K. Jain: From sugar co-gen?

Sachin Kasera: Yes.

J. K. Jain: Yes, compared to last year it will definitely be better.

Vikram S. Shriram: But with two new capacities of 24 MW will be commissioned in November 2008 so that full benefit will come in the financial year ending 2009 but even then in the financial year ending 2008 there will be an improvement compared to last year.

Sachin Kasera: Are you still looking at any distillery or ethanol anything?

Vikram S. Shriram: Not right now because the policy framework is yet to settle down and till the policy framework for the blending of ethanol in petrol until this completely settles down we feel it is better to wait and watch and once that becomes smooth and the whole system becomes smooth then we will actively consider it.

Moderator: Thank you Mr. Kasera. The next question comes from the line of Upendra Kochar from Kochar Financial Services. Please go ahead.

Upendra Kochar: Sir same question as the last one Mr. Sachin ne pucha hai ethanol ke bare mein? So koi plan nahi abi filhaal?

Ajay S. Shriram: Nahi. Abi hum ne ethanol lagane ka bhi plan nahi dekha hai.

Upendra Kochar: Kyunki abi policy changes arahe hai muthlab 5% to 10% and sugar se bhi aap direct kar sakte hai aur oil prices bhi 100 ke uppar jarahe hai or abi tho baath kar ra ha hai koi 120-150 ki baath karra he hai toh is me koi asa koi scope hai aagai sir koi?

Ajay S. Shriram: Down the road. Zaroor scope hoga lakin humlog abhi uske direction me koi commitment nahi hai. Humlog periodically apne sugar plans me be jab annually or six monthly study karte kai toh ethanol plants ke bare mein baatgeet zaroor hoti hai.

Upendra Kochar: Aisa reason kya hai sir, doosra sari companiya kar ra ha hai aap nahi kar ra hai? Koi specific reason hai?

Ajay S. Shriram: Hum ne dekha hai ki pitchle 2.5 saal me hum ne sugar main Rs. 640 crore invest kara hai expansions or growth main hain aur yeh 24 MW do aur plant laga rehen hain Loni aur Hariawan main aur 50 crore lag jayengai. To ek baar jab government ki policy clear ho jaye aur agar ye demand aur UP me vaisa be literally ye ethanol plants bahut sare naya aayae hai aur ye policy ajayenge to molasses ki dhaam bhi theek ho jayenge better than now and then we can take a view at the appropriate time.

Upendra Kochar: Second question yeh hain ki HKB aur Fenesta ye kab aap alag se isko matlab dhikana chaalu karenge?

Ajay S. Shriram: Aise be bathaye ki Hariyali ka tho humlog aglae six to eight months main we should have better clarity.

Upendra Kochar: Nahi. Woh barabar hai. Mathlab 10% ke upper kabhi turnover thabi aap thigayengai na alag se? Segment wise?

J. K. Jain: Whenever it satisfies, it is difficult to say right now, Hariyali chances, it will meet those norms next year but lets see when Fenesta meets it because as the overall turnover and overall capital employed goes up, the 10% also goes up.

Moderator: Thank you, Mr. Kochar. Ladies and gentlemen, you are reminded if anyone has a question please press “*” followed by “1”. We have another question from the line of Mr. G.K. Raju. Please go ahead.

G. K. Raju: Since the company is implementing co-gen plant expansion in plant at Bharuch. Is there any plans for exploiting the carbon credit potential?

Ajay S. Shriram: Carbon credit in Bharuch is a coal based power plant but the co-gen plants we are putting up in the sugar factory, which is the additional 24 MW that will be entitled to carbon credit. Our existing 27 MW is also entitled to carbon credit, so this year we have gained our carbon credit and as time goes down we will have more and more benefits of the carbon credit system.

G. K. Raju: And probably with the 108 MW hydel power plant of course for which the gestation period is long that also could qualify?

Ajay S. Shriram: Yes correct. Absolutely right.

Vikram S. Shriram: LNG conversion also, which we have recently commissioned is also eligible for carbon credit, so we have applied, that process of registration, etc., is on for that also.

Moderator: Thank you Mr. Raju. Ladies and gentlemen if you have a question at this time please press “*” followed by “1”.

Ajay S. Shriram: I think there are no further questions.

Moderator: All right. At this time since there are no further questions from participants I would like to hand the floor over to Mr. Ajay Shriram, Chairman and Senior Managing Director of DCM Shriram Consolidated Limited for final remarks. Over to you sir.

Ajay S. Shriram: Thank you. We would like to thank everyone for coming on this conference call and taking the interest and participating in it and asking lot of questions. As a policy we will continue this exercise periodically that is something we will do. As we mentioned earlier some of the newer businesses look very promising to us and the way the growth has happened, we foresee them as major legs of the company down the road. Our other businesses are cost comparative across the board, sugar is the one, which is under a little pressure right now, but overall we are quite bullish and we are quite positive that down the road the company will create better value than what we are doing today with the sugar situation the way it is. Thank you very much.

Moderator: Thank you, Mr. Shriram. Ladies and gentlemen that concludes this evening's conference call. Thank you for joining us in the Chorus Call conferencing facility and you may now disconnect your lines. Thank you.

Ajay S. Shriram: Thank you.

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